FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,857 Monday February 17 1986 D 8523 B

First the recovery at Fiat, now the development, Page 12

World news | Business summary

French bomb Chad air base

France bombed a Libyan-built air strip in northern Chad and airlifted 200 French troops into its capital, N'Djamena, in a response to a flare-up of Libyan-backed insurgency.

Paul Quilès, the French Defence Minister, said the air strip had been used by the rebels to launch new attacks against the Government of President Hissene Habre.

The move marked the return of French forces to Chad for the first time since about 5,000 soldiers were removed in the autumn of 1984. Page 14

Iranians advance

Iranian troops pushed further along the Faw Peninsula in southern Iraq toward the port of Umm Qasr. Foreign journalists with the force said they could see Kuwaiti territory from the Iranian positions.

Eight die in riots

At least eight people died in rioting in South Africa's racially segregated townships while a Commonwealth mission began arriving in the country to promote talks between the white minority Government and the black majority.

Gemayel visits Paris

Lebanon's President Amin Gemayel arrived in Paris on a surprise visit seen as a search for foreign support in the face of pressure by militia leaders for his resignation.

Temple clash looms

Moderate Sikh religious leaders set the stage for more violence in India's Punjab by authorising the retaking of the Golden Temple being held by militants in Amritsar. Page 14

Duvalier unwanted

Haiti's deposed ruler, Jean-Claude Duvalier, remained a "provisional" guest in France after further unsuccessful attempts to find permanent asylum elsewhere. Rumours of a move to New York were denied and a US embassy official in Paris was reported to have said that Duvalier was an "undesirable." Page 14

Shuttle launch 'error'

William Rogers, the former US Secretary of State who is leading the investigation into the space shuttle disaster, said that the decision-making process leading to the launch may have been "flawed." Page 3

Soviet liner sinks

A Soviet cruise liner struck rocks during heavy rain off New Zealand and sank in a remote bay. Rescue officials said there were no immediate reports of casualties among the estimated 800 people who had been aboard the Mikhail Lermontov.

Bangladesh shuffle

President Hossain Mohammad Ershad of Bangladesh named Major-General Mahmudul Hasan as his new Home Minister in a move seen as a hard-line response to mounting opposition. About 50 people were injured, meanwhile, as students rioted in Chittagong and Dhaka.

Taiwan plane crash

A Taiwanese airliner carrying six passengers and seven crew crashed into the sea near the Penghu (Pescadores) Islands. The state-owned China Airlines said the aircraft was making a second landing attempt at Makung after an aborted approach.

Bombers get 'life'

An Israeli military court sentenced three Palestinians to life imprisonment for bombings in Jerusalem which injured 12 people, including an eight-year-old boy who lost a leg.

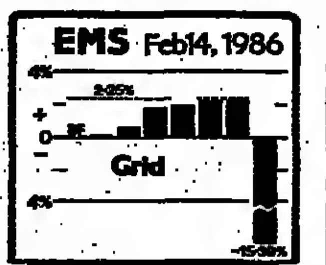
Union picks Mandela

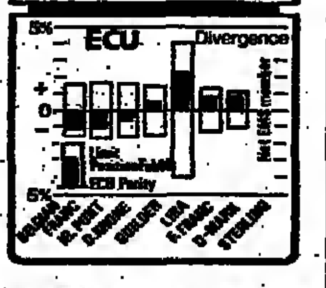
South Africa's largest black trade union, the National Union of Mineworkers, elected jailed black nationalist leader Nelson Mandela its honorary president for life and said it would march on his prison to deliver a union card.

Pemex suspends suppliers' payments

PEMEX, the Mexican state oil monopoly, suspended payments to its suppliers for 30 days following a new reduction of its oil prices. The weekend reduction of an average $4.66 a barrel followed a $4 drop two weeks earlier.

The price of Mexican oil has fallen to an average $15 a barrel from more than $24 last November.





EUROPEAN Monetary System: The Irish punt continued to weaken, and together with the Belgian franc remained around the bottom of the system. The D-Mark and French franc were steady at the top, although the position of the franc looks very vulnerable, with the Bank of France supporting the currency, through high Eurofranc interest rates, ahead of the elections to the French National Assembly on March 16.

Money moving out of the dollar is attracted more to the D-Mark than other EMS currencies, and there has been strong speculation that there will be a realignment soon after the French elections. With the possible exception of the Dutch guilder, EMS currencies are expected to be devalued against the D-Mark.

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

UK Atomic Energy Authority's Culham Laboratory has won a US Star Wars contract for development of a particle beam that could be the basis of a potential space weapon. Page 8

TOKYO: Following Wall Street's record run, the Nikkei average put on 61.52 to reach a peak of 13,403.3 in Saturday's half-day session. Leading prices, page 27

WESTERN Europe is likely to save $20bn because of the recent fall in oil prices, according to an economic adviser to the National Westminster Bank. Page 8

ATLAS-COPCO, Swedish construction, mining and engineering equipment manufacturer, increased profits by 44.5 per cent last year and will increase its dividend by the same amount. Page 17

OCCIDENTAL Petroleum reached agreement with the US Federal Trade Commission to sell 3,530 km of natural gas pipelines in order to avoid an anti-trust veto on its $3bn purchase of Midcon.

BAYER, West German chemical group, bought a majority stake in a private scientific institute in a move to increase its involvement in engineering ceramics. Page 17

MORGAN STANLEY, US investment bank which is offering 20 per cent of its shares to the public, showed a record 73 per cent increase in net earnings in 1985 to $105.9m. Page 15

DYNO Industrier, Norwegian explosives, chemicals and plastics group, reported record sales and profits for 1985, with a proposal to increase dividend from NKr 3 (41 US cents) to NKr 3.20.

Brent daisy chain wilts under oil price pressure

THIS WEEK about 2,000 of the world's oil traders will flood into London for the oil industry's annual binge – the Institute of Petroleum Week. But this year's IP week could be more a wake than a celebration, writes Dominic Lawson in London.

For last Wednesday, the forward market in North Sea Brent, which last year generated deals worth a potential £100bn ($140bn), disintegrated into a morass of defaults and threatened litigation.

For a market devoid of regulation and based entirely on a system of mutual trust among its participants, the nature of the collapse may have dealt a fatal blow to the system of dealing in future cargoes of Brent, a 1m barrel-a-day crude oil stream from the UK's most prolific oilfield.

One trader, still dazed by the events of the week, says: "Nobody trusts anyone at the moment. Everybody is suing everybody else. The ship has hit the rocks and will now sink."

The Brent forward market evolved out of the uncertainties in the oil industry after the Iranian revolution and the oil glut of the subsequent years. It provided an opportunity for fleet-footed traders to make a fortune out of "selling short" in a weak market – selling a future entitlement to a cargo in the expectation of obtaining it more cheaply. It provided oil majors with an opportunity to hedge against the dangers of being stuck with over-priced crude.

In 1984, the Brent forward market is estimated to have generated deals covering up to 2bn barrels of oil, equivalent in size to the entire Brent field. Last year the figure may have been twice that, although this or any other estimate may be as speculative as the trades themselves. With the central clearing facility, there are no undisputed facts about the market as a whole.

Now this market, conducted by telephone out of London, New York, Houston and Geneva, characterised by $500,000 salaries, million-dollar bonuses, split-second dealmaking and risks that would make a currency dealer blench appears to have fallen victim to a poisonous mixture of extreme velocity of circulation and extreme price volatility.

Recently, the Brent market has seen rapid expansion of "daisy chain" trading, in which a large number of companies get sucked into a chain of inter-connecting paper trades. Until this year, a chain of more than 30 links was considered impressive. More recently the market has generated chains with up to 160 links in which the same company appeared 14 times either as buyer or seller.

In a pure paper market such chains are of little concern, but the characteristic of the Brent market is that at some stage it inevitably leads into the physical reality of a 600,000 barrel cargo of Brent crude oil which has to be picked up by tanker at Sullom Voe within a specified three-day period.

The ultimate holder of the right to the cargo must give 15 days' notice of this to the lifter of the cargo at Sullom Voe.

By 5pm 15 days before lifting, the paper cargo becomes "wet" – that is, it becomes a real cargo for delivery. This is fine for an oil company with a refinery, but for a trader left with cargoes on his hands it may be Nemesis.

The whistle was blown in the market last week by the large trader and refiner Gatoil. It sent a telex to customers and major oil companies saying that false nominations had been made by some companies in the daisy chains. As a result it would only take one cargo between February 26 and 28 although it was supposed to be the end receiver of five cargoes on those dates.

Today's edition of Petroleum Argus, the leading monitor of the Brent market, says: "If the 15-day market is to end in an orgy of litigation it will have consequences more serious than the inconvenience of speculators and the embarrassment of oil companies that have run their stocks too low. There may be a serious dislocation of supplies."

If litigation is the result, it may not be that easy to bring the guilty to book. Many of the big speculative players in the market, while operating out of London, have incorporated their trading companies in places such as the Canton of Zug, the Bahamas and the Cayman Islands where taxes are tiny and the arm of the British law is scarcely felt.

Some such companies may prefer to seek refuge in delay in the law rather than make a cash settlement involving massive losses, according to Mr Adrian Biggs, editor of Petroleum Argus.

The breaking of the daisy chains is a result of the extreme volatility in oil prices since January when Opec crated the oil market by declaring it would not longer adhere to its output ceiling but instead drive for market share.

Whereas in the past a daily price swing of 40 cents would have been considered dramatic, since January there have been swings of as much as $5 a barrel in a day. One oil trader says: "The Brent market is the easiest market in the world to take a position in. With a minimum lot of 600,000 barrels of crude oil it is also the easiest to make a loss in."

Last December Voest-Alpine, Austria's largest industrial company and one of the biggest players in the Brent forward market, pulled out of the business after piling up losses of about $150m in its oil trading activities in a scandal which rocked the Austrian Government and forced the entire Voest-Alpine board to resign.

Traditionally the biggest players in the market are the oil majors, particularly BP and Shell. For the major oil companies involved in the Brent system of fields operated by Shell, the Brent forward market has been the means of ensuring

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West Europe to gain $20bn, Page 8; Oil-fired yen, Page 12

Washington to urge Marcos talks on orderly succession

BY REGINALD DALE IN WASHINGTON AND SAMUEL SENOREN IN MANILA

THE US wants President Ferdinand Marcos of the Philippines to begin consultations with opposition leaders which would eventually lead to an orderly succession, according to senior officials in Washington.

This message is likely to be conveyed to President Marcos today by Mr Philip Habib, President Ronald Reagan's special envoy in Manila.

This new approach by the US lies behind the sharp change of tack by President Reagan at the weekend when he clearly condemned widespread election fraud by the Marcos forces and cast doubt on the credibility of last week's presidential poll.

Mr Reagan's remarks were intended to reassure Mrs Aquino that the US would not simply wash its hands of the matter and accept a Marcos victory, US officials said. The Administration's view was that Mr Marcos was no longer a viable leader for more than a short period and that steps must be undertaken to ensure a smooth transition to the post-Marcos era.

President Marcos, beleaguered by his opponents in the Philippines and under growing attack from his chief ally, the US, was elected for a fourth term by the country's National Assembly at the weekend.

Responding to opposition calls for a general strike, President Marcos went on the offensive against charges of poll fraud and accused the opposition of cheating with the help of priests and communist rebels.

In an apparent bid to deflect criticism in the US, Mr Marcos promised, in an interview on US television, to start a "fair and honest" evaluation of how much fraud had occurred.

In another conciliatory move, he retired General Fabian Ver, the armed forces chief cleared of implication in the murder of Mr Benigno Aquino, the opposition leader. General Ver was replaced by Lt Gen Fidel Ramos, a West Point educated reform-minded officer favoured by the US.

Mrs Corazon Aquino, the opposition leader's widow and presidential challenger, called for a general strike on the first working day after Mr Marcos' inauguration when she addressed hundreds of thousands of her supporters in a park in Manila yesterday.

Under the law, Mr Marcos is to assume office for another six-year term on February 25. Mrs Aquino also called for a boycott of seven commercial banks, including the state-owned Philippine National Bank, pro-government media and a number of other businesses owned by the President's relatives and friends.

It seems clear that Mrs Aquino, encouraged by the change of attitude in Washington, is preparing her supporters for a long and possibly bloody campaign of civil disobedience to unseat Mr Marcos.

Mr Reagan's tougher line towards Mr Marcos came as a growing number of Congressional leaders of both parties denounced the election outcome and raised serious doubts about the future of US aid to the Philippines as long as Mr Marcos clings to power.

Senator Richard Lugar, Republican chairman of the Senate foreign relations committee and leader of the official US election observer team, said the election was so "fatally flawed" that he would not accept the legitimacy of the vote count on Saturday in the National Assembly officially declaring Mr Marcos the winner.

If there was no change in the situation, Congress would not support further US military aid, he said. Mr Reagan, who had last week suggested that there had been fraud "oa both sides," oa Saturday corrected

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Nakamura ship group close to Y100bn collapse

BY CARLA RAPOPORT IN TOKYO

NAKAMURA SHIPPING, the leading Japanese shipping group, was on the verge of collapse at the weekend, with total liabilities estimated at close to Y100bn ($540m).

A director of Sankyu, the diversified transport company which controls Nakamura, said at the weekend that Nakamura will file for voluntary bankruptcy in the Japanese courts "at the earliest opportunity." Sankyu will assume Y50bn of Nakamura's debt.

At the same time, the worsening state of the world shipping market was further emphasised in an announcement by Nissho Iwai, one of Japan's largest trading companies, that it intends to write off Y60bn ($320m) in bad debts related to its shipping business and withdraw from shipping entirely by the end of next month.

Nakamura's collapse will be the largest since Sanko Steamship, the world's largest tanker company, filed for protection under Japan's bankruptcy laws last August. The continued troubles of the industry cast increasing doubt on whether the proposed restructuring of the CH Tung Group, the Hong-Kong based shipping operation, will ever be accepted by Japanese creditors who hold about 60 per cent of the group's $2.25bn debt.

Sankyu, a publicly listed company which holds a controlling stake in the privately-held Nakamura Shipping, said that Nakamura's collapse will not necessarily imperil its own future. Sankyu said it will raise Y20bn of the debt through selling securities. It plans to write off a substantial portion of the balance and said the losses will not be more than the company's net capital. It plans to omit its year-end dividend. Sankyu's sales last year were around Y150bn.

Nakamura, founded about 50 years ago by Kozo Nakamura, current president of Sankyu, operates about 76 vessels. The factors contributing to its failure include collapsing freight rates, the knock-on effects of bankruptcies overseas of shipping charterers and the decision in recent years to order more ships.

The immediate effect of Nakamura's collapse is expected to be the failure of a string of small shipowners in the south of Japan, notably in Ehime and Kyushu. Some of these owners charter only one or two ships from Nakamura and as a result, are totally dependent on it for their business.

Brussels pursues high-tech venture financing

By Paul Cheeseright in Brussels

THE EUROPEAN Commission has approached financial institutions in London and Milan to see whether it can establish a new risk investment company to help the financing of high technology ventures.

It is also promoting the idea of an associated scheme to insure the new company against losses. The insurance scheme would be backed by European Community funds.

Commission officials will visit other European financial centres during the next six weeks in an effort to drum up support. No Community government has so far been approached to test official reaction. A formal proposal will be put to the 12 before the summer.

The talks so far are said to have excited interest among the banks for the investment company without agreement on details of the plan. Major industrial groups have been cool to a scheme directed primarily at medium and small companies.

But sharp reservations have been expressed about the insurance scheme, largely on the grounds that to insure a risk capital venture is a contradiction in terms.

The Commission sees itself as a broker. It would like to see the investment company started by some 15 private sector financial institutions spread across the Community.

Eurotech Capital, the name coined by the Commission for the company, would need capital of Ecu 500m ($457m) which could be released in instalments. The Commission's idea is that Eurotech Capital would take equity stakes of up to 20 per cent in companies developing, across national borders, high technology projects.

Equity financing, in the Commission view, is probably the best way of filling the financial trough between the pre-competitive research phase of a project and its commercialisation, at which time ordinary loan financing becomes more readily available. But Eurotech Capital would be a sleeping partner in companies attracting its investment.

After the initial floating of Eurotech Capital, the company could go to the stock markets for additional capital, the Commission thinks.

To make Eurotech Capital more attractive to investors, the Commission would like to see Eurotech Insur established with a capital endowment of Ecu 50m from Community funds.

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Voest-Alpine's losses soar

BY PATRICK BLUM IN VIENNA

A NEW management team was appointed at the weekend to take charge of Voest-Alpine, Austria's troubled state-owned steel, engineering, electronics and trading group. Simultaneously it was revealed that the group's total losses for 1985 have soared to Sch 11.1ba ($657m), almost double the Sch 5.7bn announced in November when the group's crisis was first made public.

Government officials say that the new figure for the deficit includes additional losses of about Sch 1bn by Voest-Alpine Intertrading, Voest's trading subsidiary, whose total deficit incurred almost entirely through speculation on the oil markets will now reach about Sch 3.4bn.

Other major losses stem from Voest's US steel subsidiary Bayou Steel, from a large metallurgical project in the Philippines, and from a microchip plant set up in Graz in partnership with American Microsystems Inc (AMI) of the US. A spokesman for Voest said at the weekend that the need to make additional provisions for risk which the Government's specially appointed accountants insisted should be included in the final accounts also contributed to the higher deficit figure.

Bayou Steel is estimated to have cost Voest about Sch 8bn in investment and operating costs, a large proportion of which has already been written off by Voest since 1982. Voest hopes that it will soon sell Bayou Steel which it says is no longer making operating losses because of a pick-up in the US market. The proceeds of the sale would help the group recoup some of the losses.

The new management board will have eight members and will be headed by Dr Herbert Lewinsky, currently chief executive of Mobil Oil Deutschland, the West German subsidiary of Mobil Oil of the US. The appointment of Dr Lewinsky was a surprise. The 58-year-old Austrian who started his career with Mobil Austria in 1951 to become its chief executive in 1967 has been working abroad since 1969. His name as a possible contender for the top job at Voest, Austria's largest industrial group employing some 70,000 people, was a closely guarded secret and only emerged late last week. It is not known when he will take up his new duties as Voest's chief executive since he has yet to negotiate his departure from Mobil.

Mr Richard Kirchweger, former head of Chemie Linz, the state-owned chemicals group, who was hastily appointed temporary chief executive of Voest after the resignation of the group's managing board in November was strongly tipped to keep the job. His appointment, however, was put into question after it was discovered thet Chemie Linz's own trading subsidiary had also made large losses through oil speculation. Critics also say that as a former executive with Voest in the 1970s at a time when it began its Bayou Steel venture, he shared some responsibility for the venture's subsequent losses. He is now expected to return to Chemie Linz.

Other members of Voest's new managing board include Dr Claus Raidl, deputy chief executive in charge of finance, Dr Peter Strahammer, for personnel, Mr Othmar Pühringer, in charge of the plant construction division, Mr Heribert Kreulitsch and Dr Robert Plöch, for metallurgical products. Dr Ludwig von Bogdandy, a West German executive currently working for the Klöckner group of West Germany

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Nine set to sign EEC reform Act

BY IVO DAWNAY IN BRUSSELS

FOREIGN MINISTERS of at least nine EEC member states will today sign the so-called Single European Act which aims to streamline Community decision-making processes and provide a new formal basis for political co-operation between the Twelve.

But the implementation of the Act's provisions remains dependent on its full endorsement by all the member states and its ratification by the 12 national parliaments.

At the week-end, it appeared likely that three countries would refuse to participate in the signing ceremony. Denmark has long insisted on putting the reform plans to its national electorate in a referendum scheduled to be held on February 27.

This decision followed protests that the package involved an unacceptable transfer of national sovereignty to EEC institutions.

Consequently, Greece has reserved its decision on whether to participate in the signing until today. Mr Theodore Pangalos, the Greek EEC Minister, has said that Athens may withold its signature in order to convey a symbolic protest at the isolation of Denmark.

Italy, the most passionate advocate of closer European integration, decided to withdraw from the ceremony last week on the grounds that the reforms agreed are insufficiently wide-ranging. However, it is believed in Brussels that Rome will reverse this decision should the Danish referendum accept the reforms plan.

The Dutch presidency of the Council of Ministers has taken pains in recent days to insist that the signing ceremony is not intended to put pressure on Denmark. The early endorsement of the Act is instead meant to emphasise the commitment of the signatories to the reform package, hammered out in a long debate last Autumn and concluded by heads of Government at the Luxembourg summit in December.

Foreign Ministers are also scheduled to debate measures to adjust agreements with the European Free Trade Association (EFTA), following the accession of Spain and Portugal to the EEC. They will attempt to finalise details of a common Community position for the forthcoming negotiations on a new Multi-Fibre Arrangement (MFA) regulating the international textile trade.

There will be an overwhelming Danish vote in favour of the reforms of the EEC in the February 27 referendum on this issue, if two opinion polls published in Copenhagen yesterday, prove correct, writes Hilary Barnes.

A Gallup poll showed that 68 per cent were in favour and 32 per cent against the reforms, while a second poll, by the Vilstrup Institute, gave a 65-32 per cent breakdown, excluding in both cases the undecided voters, who continue to constitute 20 to 25 per cent of the voters.

The share of voters favouring the reforms has increased since Prime Minister Poul Schlueter announced the referendum in January. In a January Gallup poll the breakdown was 58 per cent for and 42 per cent against.

The Prime Minister decided to call the referendum, which is consultative and formally speaking not binding on the Volketing (parliament), when a majority in the Volketing blocked agreement to the reforms against the wishes of the coalition Government.

Dutch money creation curbed

BY LAURA RAUN IN AMSTERDAM

THE DUTCH central bank has exacted a promise from banks to significantly limit money creation this year in a dramatic policy shift that reflects deep concern over rapid money supply growth.

The Nederlandsche Bank's unusual announcement on Friday was the first statement on medium-term monetary policy made outside a quarterly report in years. It signals a desire to tighten the accommodative policy followed ruring the economic recovery.

The ban ksaid that, as the recovery had taken hold, the fast monetary expansion could rekindle inflation. It wanted to slow money supply growth to the pace of expansion of nominal national income. Money creation should be sharply curtailed this year to 5½ to 6 per cent from about 9 per cent last year, it said.

Mr Gert Jan Hogweweg, the central bank's chief of money and capital markets department, said the limit on money creation fell short of a credit control and was imposed to avoid a formal ceiling on lending. It is not yet clear whether credit controls would be imposed if the money-creation limit was ignored but the banking community is likely to abide by the agreement.

The Nederlandsche Bank also appears to be worried over recent pressure on the guilder arising from outflows of cash seeking higher yields in other currencies of the European Monetary System, including the ECU. To bolster the guilder it chose to squeeze money creation rather than raise interest rates, which would have been unsettling if done without a parallel move by the West German central bank.

Hungarian unions express discontent

BY DAVID BUCHAN

HUNGARY'S TRADE unions yesterday ended their national congress by formally approving the Budapest Government's 1986-90 economic plan, but only after many rank and file delegates vented their discontent at falling living standards over the past five years.

The resolution was carried heavily in the Government's favour, by 761 votes to 21. But even this small protest vote marked an unusual display of independet feeling for a Soviet bloc trade union movement. Since the Hungarian unions had their last congress in 1980, real wages and living standards for many workers have declined as Hungary has strained to service its relatively high foreign debt.

Mr Sandor Gaspar, the trade union president who is also a member of Hungary's ruling Politburo, yesterday called for unity behind "the realistic demand of workers for raising living standards." According to the 1986-90 plan, real wages are due to rise 5 per cent, but this would only restore living standards to their 1980 level.

Mr Lajos Faluvegi, the deputy prime minister, warned union deelgates they could not expect an improvement in real wages or pensions this year, even though national income was planned to rise some 3 per cent.

SPD presses on with nuclear free proposal

By Rupert Cornwell in Bonn

WEST GERMANY'S opposition Social Democrats are pressing ahead with their attempts to work out a joint proposal for a tactical nuclear weapon-free zone in central Europe with the ruling East German SED party—in spite of the irritation such a notion causes both to the centre-right coalition in Bonn and to Nato planners in Brussels.

The plan, which builds upon a 1985 initiative of the two parties to remove chemical weapons from Europe, was the main topic of a visit to Bonn last week by a delegation headed by Mr Hermann Axen, an influential member of the East Berlin politburo. Both sides have agreed to meet again on the issue, in East Germany at the end of April.

The Social Democrats' flirtation with East Germany has been attacked on various grounds: that it constitutes a "parallel" foreign policy which diminishes the authority of the elected Government in Bonn; and that it indirectly furthers the designs of Moscow, which has long favoured such an agreement.

Iran masses troops north of Basra

By Kathleen Evans in Kuwait

IRAN was reported yesterday to be massing troops north of Basra, Iraq's second largest city, as heavy fighting continued to the south on both land and sea close to Kuwaiti territory.

Foreign diplomats in Baghdad said satellite pictures showed further build-ups at the Iranian town of Susangerd, close to the Huwaizah marshes, and said that Iran may be planning to launch an attack there to ease pressure on troops to the south. Iraq has confirmed heavy fighting in the marshes for some days and claims that it has recaptured the Majnoon Islands in an 18-hour battle.

If Iran launches this offensive, then its current operations, known as "dawn eight," will be the largest in the war, commentators believe.

In the south, Iraqi officials said their armed forces were attacking the Iranians from two sides, from Basra and from Ras Bisha, close to Fao.

Iraqi communiques also said that 41 troop-carrying vessels had been sunk in the Khor Abdullah waterway, near to the Kuwaiti island of Bubiyan.

Tehran Radio claimed advances in the southern area of Fao and said its troops occupied 322 square miles of Iraqi territory.

During the night Iranian troops also advanced towards the Iraqi naval port of Umm Qasr, officials said. Iran conducted a tour yesterday of the front line positions at Fao for foreign journalists, who reported that they could see the Kuwaiti island of Bubiyan clearly from Iranian positions.

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Pemex stops paying suppliers after prices cut

BY DAVID GARDNER IN MEXICO CITY

PETROLEOS MEXICANOS (Pemex), Mexico's State oil monopoly and the country's biggest company, has suspended payments to its suppliers for 30 days following the weekend's sharp cut in Mexican oil prices.

Mexico dropped its average oil price by $4.68 (£3.30) a barrel on Friday night, the largest reduction it has ever made, only two weeks after cutting it back by $4. The average price of Mexican oil, retroactive to February 1, is now $15.07 a barrel, down from $34.60 in November.

The collapse in international oil prices which these cuts are tracking has upset Mexico's budget and foreign exchange cash flow projections. Oil provides Mexico with about half its tax revenue and three-quarters of the foreign exchange with which it theoretically has to make repayments of $11.5bn this year on its $97bn foreign debt.

Mexico's original projections for this year foresaw an average crude price of $22 a barrel and daily exports of 1.5m barrels. At this sales level, each $1 fal costs Mexico $550m in foreign exchange. But industry analysts report January sales down to 1.1m b/d. Current loss in both price and volume therefore, averaged over the full year, leave a theoretical hole in Mexican crude revenues of $5.9bn, against original earnings projection of $12.1bn.

The consequences for domestic spending programmes, already sharply reduced in this year's deflationary budget, are grave, as Pemex's temporary payments halt and cuts in exploration announced yesterday make clear. Other major state enterprises such as the Federal Electricity Commission are also behind on payments to suppliers and in the process of deferring virtually all new investment.

Independent calculations suggest that, at the now hopelessly optimistic average oil price of $20 a barrel, the loss to the Mexican treasury over a year is some Pesos 1,000bn ($2.3bn), about a third of this coming directly from Pemex's account.

This is roughly 1.3 per cent of gross domestic product, but the multiplying effect of the foreign exchange loss, particularly through the constraints on imports, could turn this into more like a 4 per cent drop in growth.

After its financial collapse in 1982, Mexico had two years of negative growth for the first time in half a century. In the last two years its economy has grown by 3.5 to 4 per cent a year.

Rogers suggests launch may have been a mistake

BY TERRY DODSWORTH IN NEW YORK

MR WILLIAM ROGERS, the former US Secretary of State who is leading the inquiry into last month's space shuttle disaster, has suggested for the first time that space agency officials may have made a critical mistake in deciding to go ahead with the fatal launch.

In a statement at the weekend, Mr Rogers said that the investigative presidential panel had been looking at all aspects of the decision-making process leading up to the launch of the Challenger Shuttle, and had "found that the process may have been flawed."

At the same time, he asked the National Aeronautics and Space Administration (Nasa) to exclude from the agency's separate internal investigatory committee all the people involved in the decision to go ahead with the launch.

According to reports over the weekend, Mr Rogers' statement is not meant to indicate any suggestion of a cover up over the causes of the explosion which led to the death of seven crew members.

But the presidential panel has apparently grown increasingly concerned about the way in which safety problems were dealt with by the Nasa bureaucracy, especially at the lower levels.

John Elliott profiles the Hindu kingdom as the Queen arrives for a visit

Nepal steps cautiously into modern times

SENIOR army officers saluted and cannon fired in a small seventeenth century palace courtyard in the Nepalese capital of Kathmandu while a military band played the national anthem, drowning the efforts of two groups of Hindu musicians at a ceremony formally welcoming the coming of Spring.

Flanked by his Cabinet and advisers, Eton-educated King Birendra Bir Bikram Shah Dev, watched impassively. He was fulfilling his role in the cacophony as a reincarnation of the Hindu god Vishnu—the provider of the Hindu trinity — and as ruler of this small Himalayan kingdom where Queen Elizabeth II arrives today for a five day visit.

This ceremony, which took place last Thursday at Kathmandu's streets were being levelled and cleaned for the Queen, brought together the main centres of power of this almost medieval, poor kingdom which is both an international tourists' haven and a sensitive buffer state between China and India.

The King is regarded by many as an absolute ruler, relying in part for his authority on his Hindu people's respect for the God-linked monarchy. But he also relies on the total support of the army. His Cabinet, chosen by him from members elected to a non-party national assembly, shows the regime is moving gradually towards a democratic system, albeit more slowly than political activists would like.

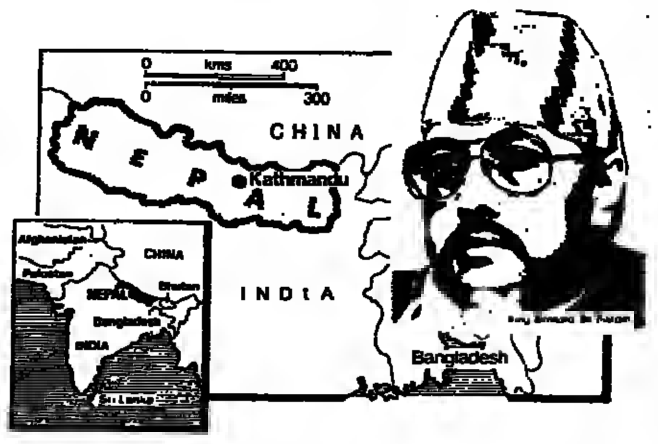
Nepal was never part of the British empire in spite of its proximity to India. It maintained virtual independence after an 1815 war with Britain.

In return it has provided generations of Gurkha soldiers who still make up about 8,400 of the British Army's strength and played a significant role in the Falklands War.

GEC telephone sets and PABX exchanges are to be made soon in Nepal following conclusion of a £1m joint venture agreement with Amatrya Enterprises of Kathmandu.

In the first stage GEC Telecommunications of the UK will supply technology, but later plans to take an equity stake of about £200,000. A letter of intent has been issued by the Government and a full licence is expected soon.

This will be one of Nepal's first modern manufacturing enterprises.



Nepal is proud that it stayed independent. But the price it paid was an almost total lack of any development until 1951 because it was ruled by a prime ministerial family, called the Ranas, who closed the country's borders, personally thriving on its backwardness.

The royal family reasserted its authority in 1951. It threw the Ranas out of office and briefly experimented with a political party system in which the pro-India Nepali Congress Party formed a government. The then king replaced this in 1961 with the present *panchayat* non-party system. In 1980, following student demonstrations, King Birendra called a referendum which backed the partyless system with a 55 to 45 per cent majority, probably indicating a 50-50 split after allowing for some inevitable ballot rigging.

The 35th anniversary of the ousting of the Ranas is celebrated tomorrow, Democracy Day, as a public holiday when the Queen will officially rest in the Kathmandu royal palace and the Duke of Edinburgh will visit a tiger reserve.

But all is not well beneath the surface of this, the world's only Hindu kingdom, where the literacy rate is estimated at only 15 to 22 per cent of the 17m population, where the population growth rate of 2.6 per cent a year (one of the world's highest) exceeds the agricultural annual growth rate of 1.7 to 2.5 per cent, and where deep rooted corruption syphons off a large proportion of international aid and cripples the country's economic growth and public administration.

These issues have come to a head with a 14.7 per cent devaluation two months ago and with elections planned for May to the non-party national assembly. The elections will test the resolve of the King and his palace entourage of family and advisers to resist pressures to move further towards a Western style democracy.

They are under pressure from the banned Nepali Congress Party to recognise parties, or at least to allow members who stand as individuals to have a common manifesto or common symbol. But the feeling against parties is strong and major concessions are most unlikely.

"We cannot raise the money in the country to fund parties and party elections so the parties would go to X, Y and Z country — and I could name another — for funds," says Mr Radha Dsir Sabbha, 77-year-old Foreign Minister.

"The election would then not be a battle between Nepalese parties but between major countries." He agreed that "X, Y and Z" were India, China and the Soviet Union with the US as the likely other donor.

Nepal is highly conscious of its position as a buffer state and courts China. It is specially wary of increasing its dependence on India, with which it has an open border and freely convertible exchange. More than 90 per cent of its foreign trade passes through India which itself accounts for about 60 to 70 per cent of total two-way trade.

Rapidly increasing imports from India, which has taken over the country's garment industry, plus an outflow of funds with black money going into India's booming stock market, led to a recent devaluation. This was accompanied by a $17m (£12.1m) standby loan from the International Monetary Fund, two-thirds of which has already been drawn.

Foreign currency reserves, which had fallen to Nepalese Rs 2bn (£67.8m) have risen to Rs 3bn, roughly equivalent to three months imports, according to Mr Prakash Lohani, Finance Minister. But balance of payments problems continue with income from tourism, the second major foreign exchange earner, dropping 33 per cent in 1983-84 to $40m. A boost in carpet exports to $12m has partially helped to offset this decline.

Aid from foreign countries and agencies provides the major source of foreign exchange inflows and provides 70 per cent of the development budget. India is believed to provide a total of $50m a year followed by Japan with $27m and the US, UK and West Germany each at around $10m to $20m.

Last time the Queen visited Nepal 25 years ago, the Nepali Congress Party had just been thrown out of power by the then King. The country has opened itself to the world since then, but faces two crucial challenges—first to develop its political system so that it avoids the sort of violent unrest that has bedevilled some of its South Asian neighbours and secondly to develop huge untapped sources of hydro electric power which could transform its economy.

Gemayel flies to Paris as pressure for resignation grows

BY NORA BOUSTANY IN BEIRUT

LEBANON'S President, Mr Amin Gemayel, under pressure to step down for his partial opposition to a Syrian-brokered militia agreement, travelled to France yesterday to address a summit of French-speaking heads of state and for a possible meeting with French President Francois Mitterand.

His surprise visit coincided with a flurry of meetings between Christian and Moslem politicians to patch up a widening rift over the stalled militia accord.

In Moslem-controlled West Beirut, police found the mutilated body of a Lebanese Jew, Mr Ibrahim Benseti. He was the third Lebanese Jew to be slain by Moslem extremists following months in captivity. The Organisation for the Oppressed on Earth claimed it had broken up a spy ring working for Israel in Lebanon.

The two others who were killed were kidnapped in West Beirut last March and were killed by the same group in retaliation for Israeli shelling of Shi'ite Moslem villages in Lebanon's southern border strip.

In Jerusalem, the Foreign Ministry expressed sorrow over the death of Mr Benseti and denied he was part of an Israeli spy network. Israel would not be blackmailed by groups that take Jews hostage in the hope of gaining Israeli concessions.

The group has claimed the abduction of at least four Jews as well as the three killings since Christmas Day. It sought to exchange its hostages for the liberation of 300 Lebanese prisoners held at the Israeli prison in Khiam, a Lebanese village close to the Israeli border.

Crackdown continues in S. Korea

BY STEVEN B. BUTLER IN SEOUL

SOUTH KOREAN police continued harsh measures through the weekend in an attempt to snuff out a national signature campaign designed to revise the constitution in favour of a direct election of the president.

Mr Kim Dae-Jung, the leading South Korean dissident, remained under house arrest behind a wall of up to 1,000 police. His telephone was cut to prevent any communication with political supporters and for the first time since he returned from exile in the US one year ago, foreign reporters were denied access to him.

The confrontation between the Government and the opposition—perhaps the most severe since the uneasy calm that followed a 1980 military coup bringing Mr Chun Doo-Hwan, the President, to power—has raised fresh fears of further political violence.

SOUTH KOREA'S trade deficit in January rose to $454m from $3m in December, according to the Economic Planning Board. Last month's deficit was nonetheless an improvement over January 1985, when the trade deficit reached $741m.

Some 2,500 police raided 129 college campuses throughout South Korea over the weekend, confiscating political literature, petrol bombs, wooden and iron clubs, and placards and banners that read "repeal the constitution" and "long live democracy."

Police have arrested 449 students so far this year compared to 207 arrests in the first eight months of last year.

Mr Kim Young Sam, another key opposition leader who only recently joined the New Korea Democratic Party (NKDP), was allowed to attend church services yesterday morning. He was forcibly returned to his home several times last week after attempting to attend political meetings in the centre of Seoul, and he and his supporters scuffled with police.

This latest series of incidents was touched off on Wednesday, February 12, when the two Kims and Mr Lee Min-Woo, President of the NKDP, became the first to sign petitions for constitutional revision. The move, timed to coincide with the anniversary of last year's strong electoral advances for the opposition party, caught the Government by surprise.

The police later staged raids on the headquarters of the NKDP and the Council for the Promotion of Democracy (CPD), which is headed by the two Kims, in an apparently unsuccessful search for the signature lists. Newspaper editorials yesterday denounced police action at the CPD headquarters, in which seven journalists were beaten.

Mr Kim Sung-ky, the Justice Minister, warned that the Government would take stiff legal action against all involved in the signature campaign. He said the campaign is a disguised attempt to provoke violence and create social unrest, that any action associated with the campaign is illegal, and that participants might face seven years in jail.

Ozal to seek UK help on reactor deal

By David Barchard in Ankara

THE TURKISH Prime Minister, Mr Turgut Ozal, arrives in Britain today on his first official visit to a Western European country, hoping for industrial co-operation between Turkey and the UK in projects ranging from nuclear energy to highway construction, and defence.

In an interview on the eve of his departure for London, Mr Ozal referred to the British stake in a nuclear power plant project at Akkuyu on the Mediterranean to be built by AECL of Canada in a consortium with NEI-Parsons of the UK which is to make electrical generating equipment for the planned 635 Mw power station.

Canada's government is believed to be close to turning down the project which would be constructed as a joint venture under the "build operate-hand over" model which Mr Ozal is trying to get Western suppliers and bankers to adopt.

European financing, organised by Standard Chartered for Nei-Parsons is thought to be in place, but the Canadian Government has reqnested sovereign guarantees on C$900m. Mr Ozal may ask the British Government to use its influence with the Canadians not to turn down the project. But he warned that he would not consider sovereign guarantees for power stations built on the joint venture model.

Mr Ozal said Britain had a major head start in landing Turkish defence contracts.

British business might be interested in a series of motorway contracts stretching from the Bulgarian border at Edirne through to Ankara, he said. A consortium led by Arup and Enet of Turkey was recently awarded a supervision contract by the Turkish state highways. Balfour Beatty of the UK is negotiating a contract to build a stretch of highway from Izmir to Salihli. Foreign consortiums have been told that they must find the financing necessary for each stage of the motorway.

The total cost of the motorway projects at present being discussed is thought to be around $1.3bn.

Mr Ozal said he had set up a study group to resume the schedule of tariff cuts under Turkey's nearly defunct association agreement with the EEC. "There have been no cuts since 1975 but we have the intention to make cuts this year."

He said he thought Turkish industry was better able to withstand competition inside the European Community than was generally realised outside the country. "I am thinking of a 10-year period for transition once Turkey joins the Community, but the timing of our application for full membership has not been decided yet.

"I cannot make an application without consulting the different member countries and if I don't see any support from them, why should I do it? Turkey is more of an asset than a liability to the EEC," he said.

W. German held in Cairo on bribery charges

By Tony Walker in Cairo

A WEST GERMAN businessman is among more than a dozen people arrested in connection with what is being described in Cairo as the "biggest and most dangerous bribery casa in Egypt's history."

The West German is being accused of paying bribes totalling soma $6m (£4m) to Egyptian officials in an attempt to win a contract for his company to supply components for a $200m paper mill to be built in Qena governorate, upper Egypt, 700 km south of Cairo.

Semi-official Egyptian newspaper reports did not name the company or the foreign businessman involved.

President Hosnei Mubarak of Egypt said at the weekend the government was engaging in a drive against corruption "in all its forms and in any location to protect public money and the rights of the people." His remarks were made against a background of worsening economic circumstances.

Among those arrested according to official press reports was the first under secretary of the Industry Ministry, who was also chairman of the committee responsible for reviewing bids for the paper mill. He is accused of accepting bribes totalling about $600,000. The Egyptian agent of the West German firm has also been arrested, the reports say.

Bids for the mill were lodged in April 1984 and included those from French, Canadian, Japanese and Swiss led consortia. A decision was expected last June.

Siemens closer to success in US telephone exchange race

BY PAUL TAYLOR IN NEW YORK

SIEMENS, the West German electrical group, has moved another step forward in the race to sell digital telephone exchange switches to US Bell Telephone companies. Ameritech, one of the seven huge regional telephone holding companies, has formally added Siemens to e list of vendors who will bid later this year for digital switch contracts worth $100m (£71m).

Siemens will join Canada's Northern Telecom end American Telephone and Telegraph (AT&T), which together dominate the US market for digital network switches, in the battle to win a slice of Ameritech's local Bell Telephone Company orders for digital switch installations in 1988 and 1989.

Ameritech said the total contract, which is likely to be split between the competing manufacturers, will probably involve between 20 and 25 large digital switches, each costing about $4.5m. The bids are due to be submitted this summer and contracts will be awarded primarily on the basis of price.

Ameritech said the switches will also have to offer a full complement of advanced telephone switching features and be capeble of eventually handling between 30,000 and 100,000 lines each though they may initially handle as few as 10,000 lines.

The move marks a breakthrough for Siemens which earlier this year won a contract to supply a test switch to Wisconsin Bell, one of the five Ameritech local telephone operating companies.

Last month Siemens and GTE announced plans to launch a US joint venture equipment group—a venture which could help Siemens supply the advanced equipment if it wins the bid battle.

Two other competitors, ITT and Plessey's Stromberg-Carlson unit, have recently won contracts to install test digital switches for Bellsouth, another of the regional holding companies, indicating thet at least one of them may be added to that group's official bid process.

EEC probes Madrid dumping charge

BY PAUL CHEESERIGHT IN BRUSSELS

THE European Commission is investigating complaints from Madrid thet steel products from other parts of the EEC are being dumped on the Spanish market.

Investigators are seeking to esteblish the precise quantities and the exact price of steel going to Spain.

Figures suggest tha surge began as soon as Spain joined the Community on January 1. Shipments last month reached 200,000 tonnes, including coils, double the normal level.

Part of the increase is said to come from orders placed befora Spain joined the Community, part from acceleroted sales. The main source of the steel is Germany and the Benelux countries.

Tha Commission however believes the tonnage delivered will fall off by the end of the month.

In the first 10 months of last year, total shipments to Spain from the then 10 members of the Community reached 1.14m tonnes. Shipments in January 1985 were 111,000 tonnes and in February 1985 127,000 tonnes.

Spain continues to feel aggrieved that its steel sales in the rest of the Community are controlled by quota—827,500 tonnes this year

Such an arrangement was demanded by the 10 in the Spanish accession negotiations because of the level of subsidies

● The European Community at the weekend brought into-force retaliation measures against the US for the Reagan Administration's imposition of quotas on shipments of semi-finished steel. The measures will have tha effect of cutting US sales in the Community of fertiliser, beef tallow and high quality paper.

SHIPPING REPORT

Pressure on oil prices hits tanker markets

BY ANDREW FISHER, SHIPPING CORRESPONDENT

SHIPPING markets remained confused and depressed last week, with dry cargo retes falling further and tanker activity slow in the absence of stable oil prices.

Galbraith's, the London shipbroking company, said there had been virtually no VLCC (very large crude carrier) fixing on the open market, though one 260,000 tonner accepted the low rate of Worldscale 22.5 for a trip from the Arabian Gulf to the US Gulf.

More business was seen out of West Africa, but trade was poor from the Caribbean and Mediterranean. Galbraith's said in general "traders are still having enormous problems in being able to conclude deals because of the structure of oil prices, which remain unstable

In the dry cargo sector, said Denholm Coates, it was "another depressing week, with all-round weakness apparent." Rates did, however, seem to be steadying at the low levels now reached, namely $6.75 a ton for grain from the US Gulf to Continental Europe and $10.75 to Japan.

On the scrap market, the Soviet Union sold around 20 vessels to China. Demolition business was hindered by the New Year holiday in China and Taiwan, with the markets in Pakistan and India also slack.

● The big Japanese shipping companies may soon pull out of a trans-Pacific rate pact, setting off a rate-cutting war on the liner route between the Far East and North America, Reuter reports.

Japanese shipping companies said if Evergreen of Taiwan carried out its threat to leave the Asia North America Eastbound Rate Agreement (Anera), they would follow.

World Economic Indicators

UNEMPLOYMENT

		Jan. 86	Dec. 85	Nov. 85	Jan. 85
UK	(m)	3.408	3.273	3.259	3.341
	%	14.1	13.5	13.5	13.8
US	(m)	7.831	8.023	8.161	8.439
	%	6.7	6.9	7.0	7.4
		Dec. 85	Nov. 85	Oct. 85	Dec. 84
W. Germany	(m)	2.347	2.210	2.148	2.325
	%	8.7	8.2	8.0	8.6
France	(m)	2.436	2.495	2.505	2.525
	%	10.5	10.7	10.8	11.1
Italy	(m)	3.087	3.052	3.024	3.073
	%	13.5	13.4	13.3	13.5
Netherlands	(m)	0.749	0.742	0.743	0.797
	%	13.2	13.0	13.1	14.0
Belgium	(m)	0.542	0.541	0.553	0.605
	%	13.1	13.1	13.4	14.7
		Oct. 85	Sept. 85	Aug. 85	Oct. 84
Japan	(m)	1.590	1.580	1.480	1.590
	%	2.76	2.72	2.59	2.77

Source (Except UK, US): Eurostat

Toshiba wins Y12bn Soviet colour TV order

By Carla Rapoport in Tokyo

TOSHIBA, the Japanese electronics group, and Kanematsu-Gosho, a Japanese trading company, have won a Y12bn (£46m) order to supply the Soviet Union with equipment to make colour television sets.

Toshiba said at the week-end the deal is the largest order it has won from the Soviet Union in 10 years when Toshiba exported equipment to make room air conditioners. The success of that deal, Toshiba believes, led to the current order.

The plant will start operation in mid-1988 and will be capable of producing 300,000 20-in colour television sets a year. The order includes all the components except picture tubes.

The deal marks the first time that the Soviet Union has purchased a colour television plant from Japan.

According to Japanese executives, the Soviet Union intends to boost its production of colour television sets from 3m units a year currently to 7m units a year by 1990.

Japan group may make spring link-up

NHK SPRING of Japan and Barnes Group, the largest US spring maker, are considering setting up a joint venture in North America to produce and sell valve springs for vehicle engines, reports Yoko Shibata from Tokyo.

NHK said the companies will soon begin feasibility studies which should be completed by May this year. They have already signed an agreement to exchange data and information on precision spring production technologies.

Barnes holds 40 per cent of the US spring market.

UK NEWS

Government may extend job-creation scheme

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

THE GOVERNMENT is considering a big extension of its "Job Start" programme for the long-term unemployed as the central element in a package of job-creation measures for the budget next month.

The idea is strongly backed by Lord Young, the Employment Secretary. On Wednesday he is due to outline the first results of a number of pilot schemes at a meeting of the House of Commons select committee on employment.

The programme is also winning support across different sections of the Conservative Party. Job Start was introduced at the beginning of this year with pilot studies in nine different parts of the country. In essence, it involves local employment offices making individual contact with every long-term unemployed worker in the area.

Those individuals are then offered details of the whole range of government training and job-creation programmes, and the possibility of a direct subsidy of £20 a week if they are prepared to take work paying below £80 a week.

The Department of Employment has yet to complete a full assessment of the pilots schemes, but the view in Whitehall is that the initial results are extremely encouraging. In some areas more than 90 per cent of the long-term unemployed are said to have been given detailed counselling.

As long as these results are confirmed by a more detailed assessment, Lord Young is expected to present proposals for its extension to the whole of the country in time for inclusion in the budget speech.

Mr Nigel Lawson, the Chancellor of the Exchequer, has been unenthusiastic about further extension of official job schemes. Last week he pointed out that two sets of measures introduced in the last budget will only begin to reduce the dole queues later this year.

Mr Lawson would prefer to focus on his upbeat view of the economic outlook. It is thought in Whitehall that the economic forecasts due alongside the budget will predict another year of 2½ to 3 per cent growth in 1987, with a fall in the inflation rate to close to 3 per cent

There is a growing feeling among other senior ministers, however, that the Government must be seen to be taking direct action to help the unemployed. Sir Geoffrey Howe, the Foreign Secretary, is among senior ministers urging such measures.

Oil forces down gas prices for industry

By Maurice Samuelson

THE PRICE of gas for many large industrial consumers in Britain has begun to fall because of sharpening competition from oil. This is believed to be first time this has happened since the early 1970s.

The gas industry and some of its bigger customers have disclosed that in the past three weeks a number of major contracts were being renegotiated to take account of the lower prices of heavy fuel oil, gas-oil and other oil products.

With power station coal prices also under pressure, the prospect of cheaper gas illustrates the speed with which manufacturing industry, after a decade of recession, might start to benefit from the oil price collapse.

So far, the British Gas Corporation has shown no sign of abandoning its official forecast that its overall sales might rise to 20bn therms by the end of the decade from the 1983 level of 17.3bn therms.

But although most of the growth is expected in the commercial buildings sector, corporation was also counting on winning over industrial customers from oil or coal. This prospect is now obscured by the oil price fall. Its continuation could also affect the amount of money the Government would raise from privatising the corporation.

Oil prices have already fallen low enough to give several industrial sites second thoughts about switching to natural gas from fuel oil, gas-oil or coal. A number of proposed conversion schemes have been shelved.

N-plant leaks 'larger than admitted'

BY MAX WILKINSON, RESOURCES EDITOR

THE DISCLOSURE this weekend that radioactive leaks from the nuclear waste disposal plant in Sellafield, Cumbria, have been far larger than admitted seems certain to be a further setback to the Government's hopes of pushing ahead with a civil nuclear programme.

British Nuclear Fuels (BNFL), which operates the Sellafield plant admitted last night that leaks of radioactive materials in 1954-53 may have been 40 times greater than has been admitted.

Preliminary calculations have suggested that the risk of leukaemia among children in the neighbourhood was about 3 per cent higher than previously believed, although the figure is still small.

The new evidence of leakage was uncovered as a result of an exhaustive search of records by BNFL following protests by a physicist, Dr Derek Jakeman, who was working at the plant at the time.

This shows that evidence given by the nuclear authorities to Sir Douglas Black's inquiry into the effects of radiation was seriously in error, and his conclusions, published in 1984, might have to be re-appraised.

This latest evidence of error by the nuclear authorities comes at a time of mounting public and political disquiet about the disposal of nuclear wastes and the operations of the Sellafield plant.

This weekend BNFL also disclosed that an unnamed worker may have received the maximum dose of radiation permissable for a full year in the recent leakage of plutonium at the plant, which affected 11 men.

Although this recent leakage, during maintenance work on a pump, was said by the Health and Safety Executive to be a minor one, it caused a significant stir inside and out Parliament.

More seriously, the all-party environment committee of MPs is planning to publish a report in the next few weeks which will be deeply critical of the Government's policy for nuclear waste disposal and the lack of professionalism in comparison with practice in other countries.

Bidders prepare fresh moves on Imperial

BY TERRY GARRETT AND MARGARET VAN HATTEM

THE BATTLE for ownership of Imperial, the drinks, tobacco and foods group, is rapidly reaching a climax. Hanson Trust is preparing to raise its hostile offer and United Biscuits is frantically searching for ways to revive the agreed merger with Imperial that was blocked last week with a reference to the Monopolies and Mergers Commission.

Hanson has until Thursday to raise its £1.8bn bid which is being fiercely rejected by the Imperial board. Its terms are currently worth 45p below the defender's current market price of 291p and the City of London confidently expects a revised offer of a little over 300p a share, possibly with the introduction of a cash element.

Mr Martin Taylor, a Hanson director, said yesterday that Imperial's forecast of a 23 per cent rise in pre-tax profits to £290m for the year to October had been noted and a decision over a higher bid would be made this week.

Mr Geoffrey Kent, Imperial chairman, and his board were with their advisers throughout yesterday in preparation for an increased offer from Hanson which they expect today.

United Biscuits also called a board meeting in London yesterday evening to devise a strategy to break the deadlock of the monopolies reference.

Mr Paul Channon, Trade and Industry Secretary, announced his decision to refer the £1.3bn merger on Wednesday because it raised questions of competition in the snacks market.

If the deal had gone ahead the enlarged group would have held about 40 per cent of the snacks market with products such as Golden Wonder crisps and KP nuts, although this activity would only account for 4.3 per cent of the combined group's turnover.

However, Sir Hector Laing, United's chairman, remains committed to the logic of an Imperial/United marriage and is examining proposals to turn the earlier agreed deal on its head with United making a rival bid for Imperial.

Those proposals are believed to include the possibility of a commitment to dispose of part of Imperial's food interests as a way of avoiding the monopolies investigation.

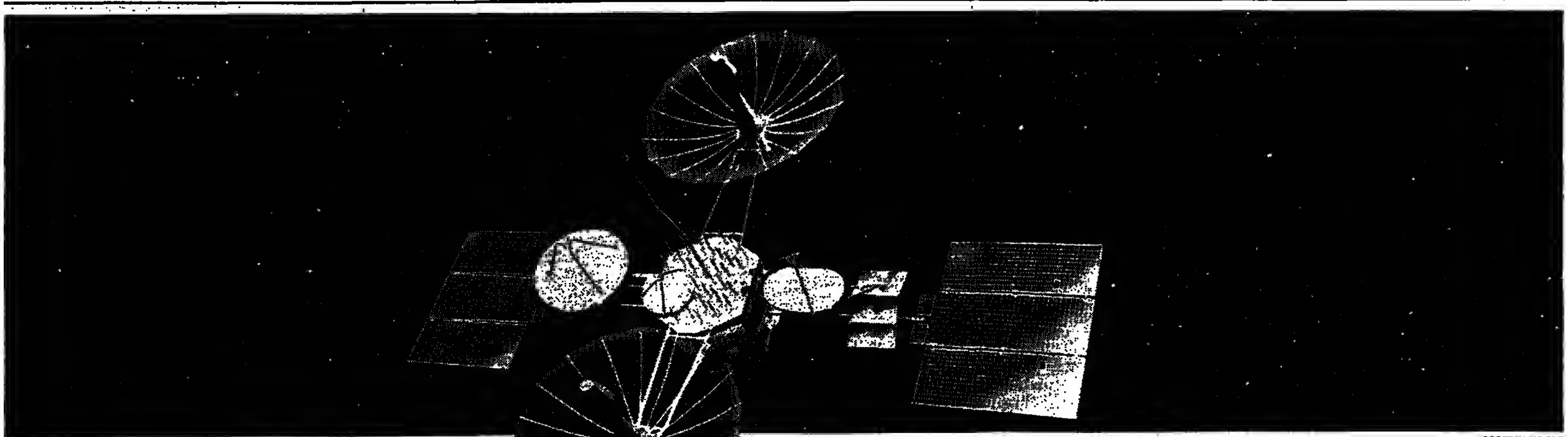
An announcement from United may be made as early as this morning. Sir Hector is known to favour agreed deals but may well be prepared to proceed in the face of Imperial opposition if his proposals are rejected.

The Government's role in the affair came under increasing criticism at the weekend from Opposition MPs, who have been quick to point out inconsistencies in the Government's approach to a number of recent bids.

Mr David Steel, Liberal leader, in a letter to Mrs Margaret Thatcher, the Prime Minister, hinted that the Government was using its power to refer bids to the Monopolies and Mergers Commission to bring pressure to bear on companies in other issues.

"Anyone disposed to cause mischief might be tempted to suggest that the Hanson bid was given the all clear as a thank you for Lord Hanson's role in the Westland affair, in contrast to the bid for Plessey by GEC who were on the 'wrong side' of the Westland argument from the Government's point of view and thus could be said to have been punished," he wrote.

Mr Steel said the Government's policy on mergers lacked "stability and predictability"



Discontent in the legal profession

What price lawyers, asks Anthony Woolf, senior partner in Freedman, a London firm of solicitors.

BRITISH LAWYERS have never had a good press and at present they are subject to a great hue-and-cry. "Radical" reforms called for by politicians and the media include fusion of the two branches, contingency fees, unrestricted price competition in advertising and new rights for non-lawyers to undertake legal business.

The professions themselves, under threat of legislation, are in turmoil, even conflict, over their rules, practices and remuneration. The Bar is posed to strike or sue the Lord Chancellor over fees. The Law Society bids for new audience rights and rushes out sub-committee Green Papers (discussion documents) on reorganisation.

But, while improvements are constantly desirabla and some measures may be urgent, many of these proposals will not cure current evils and could create new ones.

At what complaints are they aimed? First, that too much law is complex and obscure; second, that its procedures and institutions are too cumbersome, costly and slow; third, that the standard of justice and of legal services it not high enough. At face value those complaints may be impossible to disprove, but "too costly" or "too slow" means nothing without a social and political context and in that context alternatives and their costs must be balanced and judged.

The law is, of course, complex; so are the relationships, aims and interests of all the people and bodies which its business is to regulate, facilitate and moderate. A modern society cannot be governed by the Ten Commandments alone. Commands, rules and prohibitions need constant adjustment and subtle limits and exceptions in order to draw the most useful and socially acceptable lines between conflicting interests.

Similarly, legal procedures and institutions have taken shape over centuries of experience in resolving complex and difficult conflicts. A fair trial, a correct judgment, a predictable outcome, are all difficult things to achieve and impossible to guarantee. If we aim for them, we need rules governing, for instance, evidence, disclosure, conduct of trials and the burden and standard of proof.

They need constant review and improvement, but not mere simplification; the procedure of lynch mobs and kangaroo courts is beautifully simple and their "justice" is swift and cheap, but those virtues are dearly bought.

Comparatively few disputes actually reach trial but ultimately all law, judge-made or statutory, is what the courts say it is, and attempted anticipation of that governs all legal work including the tortuous political process of legislation. Whatever he does for a client, a lawyer must predict what a court would resolve if his work were put to the test. On that depends his client's success. Generally, his client wants something that the client of another does not or should not want him to get, so that conflict actual or potential, is inherent in every legal situation. For every winner, therefore, there is a loser who, not surprisingly, may begrudge his lawyer's fee whatever the quality of his service. Even a winner may brood that he might have done better.

Sometimes they will be right, because some lawyers (like people in other occupations) are more clever, more experienced, on better form or more determined than others. No law can create equal ability, although surveys have shown a higher level of satisfaction with lawyers' services than might be expected.

It is argued by some that solicitors' and barristers' incomes exceed their "value" and that they keep themselves in work by creating artificial needs for unnecessary services. They are therefore accused of defending antiquated procedures, institutions and practices which delay and frustrate justice and without which it is said, their incomes would fall while many of them would be out of work. On this basis, advocates of fusion, American style "payment by results" and so on, seek to discount as inherently invalid and self-interested lawyers' warnings that these practices would be against the public interest in Britain.

But in truth, it is this generalisation that is wrong-headed and often dishonest and self-interested. The campaign to break the solicitors' monopoly in conveyancing serves, above all, the interests and pockets of big financial institutions and, combined with crude price-cutting competition, will cause standards to plummet. Drumming up contingency fee work generates litigation and inflates damages and the incomes of top lawyers and insurance companies.

Restrictions on the rights of audience, as Sir John Donaldson, the Master of the Rolls, has pointed out, are imposed to maintain standards in the public interest, not at all for the benefit of the professions; and of course, professionals adapt their systems of work and charging policies to changes in their working environment.

Law and its administration constitute the indispensable framework of all social existence. Its forms are evolutionary, national and local, and cannot be transplanted on isolation. The law is part of each human eco-system; its costs (which breed settlement and compromise) are part of each national economy. Any changes have immediate environmental effects and, unless these are anticipated and evaluated accurately, they can be disastrous.

Plessey wins navy contract

By Fiona Thompson

PLESSEY, the electronics group, has won a £20m contract to supply advanced 3-D surveillance radar systems to the Royal Navy.

The Type 996 radars will provide automatic target indication to Sea Wolf and Sea Dart missiles and will be installed in all Type 42 destroyers, Invincible class aircraft carriers and the new Type 23 frigates. First deliveries are scheduled for later this year.

Commenting on the order, Sir James Blyth, managing director of Plessey, said: "In ousting GEC/Marconi from their position as traditional suppliers of this type of naval radar, we were able to draw on our considerable export experience and impressive research and development facilities to offer Type 996, an advanced radar which will give the Royal Navy an outstanding increase in operational capability."

Industrial pay rises still ahead of inflation

By Philip Stephens, Economics Correspondent

PAY SETTLEMENTS in manufacturing industry appear to have edged down slightly in the last few months of 1985, but earnings are still running well ahead of inflation.

Provisional figures released today by the Confederation of British Industry (CBI), suggest that deals in manufacturing averaged around 6¼ per cent in the final quarter of last year, down from 6½ per cent in the first nine months.

The Government believes that lower pay settlements in the next wage round will be crucial to maintaining inflation on a downward trend without further rises in the unemployment total. It recognises, however, that there are likely to be conflicting pressures on wage bargaining over the rest of this year.

The sharp fall in the inflation rate expected over the next few months – the annual pace of price rises is generally forecast to fall to below 4 per cent from the present 5.7 per cent – should lead to more moderate wage demands.

There is official concern, however, that the expected boost to company profits resulting from lower oil prices and a more competitive sterling exchange rate could discourage companies from resisting large claims.

The Treasury is thought to be assuming a modest fall in earnings growth in the economic forecasts it is preparing for the budget, but many independent economists are less confident.

The CBI data do not take account of so-called wage drift, through which earnings are pushed up by overtime, bonus and other payments. Average earnings in manufacturing have been rising by about 9 per cent a year, while across the whole economy the rate of increase has been about 7.5 per cent.

With productivity gains running at around 2.5 per cent that points to a core inflation rate of about 5 per cent, significantly higher than in Britain's major competitors.

Companies responding to the CBI survey said that an inability to raise prices and low profits were the main contraints on high pay awards, while inflation remained the strongest upward pressure.

UK NEWS

Austin Rover extends lead over Ford as biggest car producer

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

AUSTIN ROVER increased its lead over Ford as the UK's leading car producer last year.

The biggest increase in output in 1985, however, came from General Motors, the Vauxhall group, whose UK car plants at Luton, north of London, and Ellesmere Port on Merseyside gave their best production performance since 1972.

The other large UK producer, French-owned Peugeot-Talbot, suffered another set-back. Its export contract to supply car kits to Iran ran into problems again and output of cars for the UK was at a low ebb while the company prepared to bring the new Peugeot 309 into production at the Ryton, Coventry, factory.

Austin Rover's car output last year was the best since 1979 and 21.4 per cent ahead of the 1984 level at 450,892. Although that is well below Austin Rover's achievement in the mid-1970s, when its output was nearly 740,000 a year, the company has consistently remained ahead of Ford in car production.

For the past 10 years, however, Ford has taken a big lead in car sales – a position it has maintained by importing from its continental European factories about half the cars it sells.

Ford's car production recovered last year by 16 per cent from the poor performance in 1984 when it was hit by industrial disputes.

Both Ford and GM-Vauxhall have been under pressure from the UK Government to produce more cars in the UK and last year GM pushed up output by more than 30 per cent.

The US group's car sales are running at record levels in the UK – like Ford it imports about half its cars from continental Europe – and GM expected to do even better.

But production of the new Astra at Ellesmere Port took much longer than expected to reach scheduled levels because of problems with the heavily automated equipment. Even so, GM's output in the UK in 1985 was the best for 13 years.

According to statistics shortly to be published in the Society of Motor Manufacturers and Traders' Monthly Statistical Review, Peugeot-Talbot's car output, which consistently reached over 225,000 in the mid-1970s, last year fell by another 29.5 per cent to only 67,000.

Output should pick up this year now the Peugeot 309 is in production, having replaced the old Horizon, Alpine, and Solara models at Ryton.

Supplies of Iranian kits from the nearby Stoke, Coventry, plant are likely to remain subject to interruption, however, because of shortages of foreign currency in Iran.

The society's figures confirm that UK car output rose 12 per cent last year from the 1984 total to top 1m again and reach the best level since 1978.

Among the smaller producers, BL's Land Rover subsidiary made a record number of Range Rover models last year, and Jaguar-Daimler also had a record production year. But Rolls-Royce, which produced more than 3,000 cars a year throughout the 1970s, still has some way to go to recover lost ground.

UK CAR PRODUCTION

	1984	1985
Austin Rover	371,427	450,892
Range Rover	11,897	14,212
Total BL	383,324	465,104
Ford	273,767	317,689
Peugeot-Talbot	95,122	67,066
General Motors/Vauxhall	117,114	152,587
Carbodies	1,621	1,813
Jaguar/Daimler	33,342	38,378
Reliant	135	738
Rolls-Royce	2,201	2,588
Others	2,280	2,010
Total	908,906	1,047,973

Source: SMMT Monthly Statistical Review

MPs increase political pressure to prevent sale of BL divisions

BY KENNETH GOODING AND MARGARET VAN HATTEM

LABOUR LEADERS and some Tory MPs are seeking ways to step up pressure on the Government this week to prevent the sale of BL's commercial divisions to General Motors (GM) of the US.

Mr John Smith, shadow trade and industry spokesman and Mr Roy Hattersley, shadow Chancellor of the Exchequer, who are spearheading the Labour attack, yesterday appeared confident that the sale of Land Rover and Leyland Trucks could be prevented, just as the sale of Austin Rover had been stopped.

Meanwhile Tory MPs supporting the "Keep BL British" campaign are expected to increase pressure on the Government to cease talks with GM and to concentrate on negotiations with a number of UK organisations that have expressed interest in the Land Rover company.

Lonrho, the international trading group, emerged at the weekend as the latest of these. Mr Paul Spicer, a Lonrho director, yesterday confirmed that the company had been negotiating for the past three weeks with the Department of Trade and Industry to buy Land Rover.

However, the Land Rover management strenuously denied yesterday that it is involved in any way in discussions aimed at thwarting the takeover by GM, the world's largest automotive group, which in Europe owns Opel, Vauxhall and Bedford and recently announced an agreed bid for the Lotus sports car company.

Land Rover also denied suggestions that it would hold a ballot of employees to test their attitude to the possible acquisition by GM.

Union representatives will meet Mr David Andrews, the BL executive director responsible for the commercial vehicle operations, today but this is at their request. The meeting was arranged some time ago. Unions wanted clarification of the situation after the Government announcement about the possible sale to GM and that Metro-Cammell-Weymann might buy Leyland Bus.

The Department of Trade and Industry said yesterday that all organisations interested in Land Rover were being told to take up the matter directly with BL, the state-owned parent group.

Mr Roland "Tiny" Rowland, Lonrho's chief executive, said he believed his company could achieve significantly higher sales in the Middle East and Africa for Land Rover and Range Rover four-wheel-drive vehicles through its connections in those areas. Lonrho claims to be the largest motor distribution group in Africa.

Mr Rowland added that Lord Stokes of Leyland, once chairman of British Leyland and now chairman of Lonrho's Dutton-Forshaw car distribution subsidiary in the UK, would act as adviser if Lonrho's approach was successful.

However, indications are that BL would not want to delay completion of the deal with GM which now seems very close after talks that have taken several months.

Only strong pressure from the Government would divert BL from this course. So far there has been no sign that the Government is heeding demands, including those from some Conservative backbenchers, to "keep Land Rover British."

GM was at first only interested in Leyland Trucks, which it wanted to merge with the Bedford operations in Britain. Bedford is in urgent need of new heavy truck models and Leyland can provide them as it has renewed its range and production facilities in a £350m investment programme since 1979.

Some attempts were made in the early stages of the GM talks to arrange a management buy-out for Land Rover. But GM subsequently decided it was interested in the whole of BL's loss-making commercial vehicle operations – except for the bus business.

Land Rover has just come through a hectic four years during which it has spent over £100m to complete the update and revise the Land Rover and Range Rover models to give them more appeal in wealthy, industrialised countries.

Mr Fix-it, Page 8

BA 'passes' test over sealed jumbo exits

BY LYNTON McLAIN

BRITISH AIRWAYS' policy of sealing two emergency exits on its 747 jumbo jets appears to have been vindicated by a successful evacuation test of a laden 747 in the US on Saturday.

All the passengers and crew escaped, but with only 11 seconds to spare before the test would have been ruled a failure. Some of the British Airways (BA) crew suffered minor injuries, including abrasive burns from the escape chutes.

The final fate of the sealed doors on the BA fleet is to be determined by the US Federal Aviation Administration (FAA) and the UK Civil Aviation Authority (CAA) which are studying data from the test. At the moment it looks as if BA might be spared the embarrassment of unsealing the emergency exits which would have cost millions of pounds and taken aircraft out of service.

The test was arranged to see if passengers and crew could evacuate a normal 10-door jumbo jet with two of the emergency exits sealed and with half of the remaining doors out of action. Under rules set by the FAA, passengers and crew have to evacuate the jumbo jet in 90 seconds.

Boeing, the maker of the 747 jumbo jet said yesterday: "Boeing is conducting a full review of the data obtained in the demonstration which was witnessed by FAA, CAA, Japan Aeronautics Board and 747 customers' airline personnel."

British Airways said yesterday: "This test would end the superficial discussion of evacuation procedure on this aircraft type. The test carried out under the most stringent conditions by Boeing has proved that evacuation procedures on this aircraft are to the same standards as other aircraft types worldwide."

The test was crucial to British Airways. The airline was thought to be the only airline to have sealed emergency over-wing exits on its jumbo jet fleet, in order to smarten the cabin and improve the toilets. Boeing 747 jumbo jets were designed to have 10 emergency exits, five on each side of the aircraft, when carrying a maximum of 550 passengers. BA carries a maximum of 412 passengers in total and seals the two exits cutting down the available exits to eight doors. Four of these are assumed by the FAA to be disabled in an emergency.

British Airways would have had to spend about £14m to reinstate the doors if the test had failed. This would have required considerable work, grounding the fleet just as the busy summer season approaches and as the Government prepares plans to sell the airline by the middle of the year.

UK NEWS

Margaret van Hattem maps the rise of Labour's John Smith

Mr Fix-it moves to centre-stage

IT CANNOT be easy, if your name is John Smith, to convince others that you are remarkable. No one called John Smith has yet become Prime Minister.

In recent weeks, however, there has been a lot of muttering around Westminster that the Mr John Smith who is Labour's trade and industry spokesman might be the first to do so.

The reason he is at present the politicians' flavour of the month is quite simply that the Westland and BL affairs have supplied the opportunity for him to turn in some remarkable House of Commons performances, outshining not only his own party leader but also Mrs Margaret Thatcher, the Prime Minister; Mr Leon Brittan, the former Trade and Industry Secretary who resigned during the Westland affair; and Mr Paul Channon, his successor.

Labour MPs have not been so cheerful in months. Even the far-left Campaign Group concedes that he would made a good leader because he is "not stupid – and sensible enough to make his own accommodation with the left."

He is also far too sensible to admit to any ambition to be Labour leader. He is, he admits, ambitious "but not insanely so – I look forward to being a senior member of the next Labour cabinet."

That is an ambition certain to be fulfilled providing the next Labour cabinet is formed before the turn of the century. Only five of the present shadow Cabinet have any cabinet experience and of those, Mr Stan Orme, Mr Denis Healey and Mr Peter Shore may not remain in politics long enough to serve in the next Labour cabinet. That would leave Mr Roy Hattersley and Mr Smith as the only members of the emerging generation of Labour leaders with any direct experience of cabinet government.

Both were among MPs singled out by Mr James Callaghan, the former Labour leader, as the core of bright young men from whom the party's future leaders ought to be drawn.

Mr Smith, a lawyer by profession, arrived at Westminster in 1974 with some very definite ideas. One, as he later confided to a friend, was that the beauty of the British political system lay in its ability to produce a House of Commons that was a truly representative cross-section of the British people.

Another of his definite ideas was that any job as a Scottish minister, particularly a Scottish legal officer, would he the first step towards political oblivion. He declined the first job offered to him, that of the Scottish Solicitor General, in 1970, wondering if he would ever be offered another job.

Eight months later he was appointed junior minister at the Energy Department, working first with Mr Eric Varley, then with Mr Tony Benn, whom he particularly admired. Mr Benn, he says, was "in his teacher and leader phase – he was very good at delegating, and those were very heavy days." Mr Smith quickly established a reputation for being able to master a complicated brief quickly and to steer legally complex legislation through Parliament more effectively than most – a reputation consolidated in his next job, working under Mr Michael Foot on devolution. He also established a reputation as a formidable arm twister and behind-the-scenes fixer.

Despite his rapid rise since then as Trade Secretary and shadow secretaries for trade, energy, employment and industry, he has never quite shaken off the image of a low profile, behind-the-scenes man – efficient, intelligent, conscientious, but not about to set the Thames on fire.

This, he says, is largely his own fault: "My friends often criticise me for not being good at publicity," he says, much in the way one might regret a lack of aptitude for fraud or embezzlement.

He has also stood aside from the party's internal battles. Although he is seen as a right-winger, a close supporter of Mr Hattersley and one who has taken a tough line on booting the extreme Militant Tendancy out of the party, he is not one to weigh into each battle with a series of statements and speeches.

So, although he has no real power base in the party, he is probably more acceptable than most across the broad spectrum.

Right now, he is concentrating on getting Labour's policies on trade and industry – particularly in relation to nationalisation – into shape in time for this autumn's party conference. While committed to public ownership of utilities, essential monopolies such as steel, and the defence industries, he believes the role of the state elsewhere in industry should be as a flexible partner with the private sector: co-ordinating and planning, taking a lead where necessary, providing incentives or simply acting as a catalyst.

But he sees the universities, not the party conference halls, as the real battleground. That, he says, is where the argument must be won.

Europe to gain $20bn on reduced oil imports

BY MAX WILKINSON, RESOURCES EDITOR

WESTERN EUROPE stands to gain about $20bn in reduced oil imports because of the recent fall in oil prices, Dr David Lomax, economic adviser to the National Westminster Bank predicts today.

In the bank's latest International Review he says the total transfer from oil producers to consuming nations could be about $50bn in 1986.

His calculations are based on the view that oil prices will stabilise at about $17 to $19 a barrel compared with an average spot market price of $27 a barrel for Arabian Light last year.

The two other possibilities, which he thinks are less likely, would be a recovery of oil prices later this year as the Opec cartel regroups, or a further collapse after a complete breakdown in discipline among oil producers.

Japan and the US would be the largest gainers in terms of reduced oil imports. In each case the cost of imports would fall by about $9bn in a full year if the oil price were $20 a barrel on average this year compared with $27 in 1985.

West Germany would gain by $6.6bn and France, $3.5bn. Saudi Arabia would experience the largest loss ($7bn), followed by Mexico ($4.2bn) and then Nigeria and Venezuela (both $3.5bn). These estimates assume production would be unchanged at 1985 levels.

Lower oil prices would help to stimulate growth and to ease inflationary pressures in the industrial world, he says.

In a separate "UK Economic Outlook," Dr Lomax says that the short-term impact on the UK will be in reducing the scope for tax cuts, but improved economic prospects in the developed world and increased UK competitiveness should bring substantial trade benefits.

Nuclear laboratory lands Star Wars contract

BY DAVID FISHLOCK, SCIENCE EDITOR

BRITAIN'S NUCLEAR industry has won a Star Wars development contract.

The Culham Laboratory, part of the UK Atomic Energy Authority, has negotiated a contract it expects to be worth up to £1.5m a year for the next four years to design a way of generating a very bright and continuous beam for a potential space weapon.

The British scientists will co-operate with Los Alamos National Laboratory in New Mexico to design and test at Culham, near Oxford, a high-voltage particle accelerator using Culham's ideas for generating a continuous neutral particle beam.

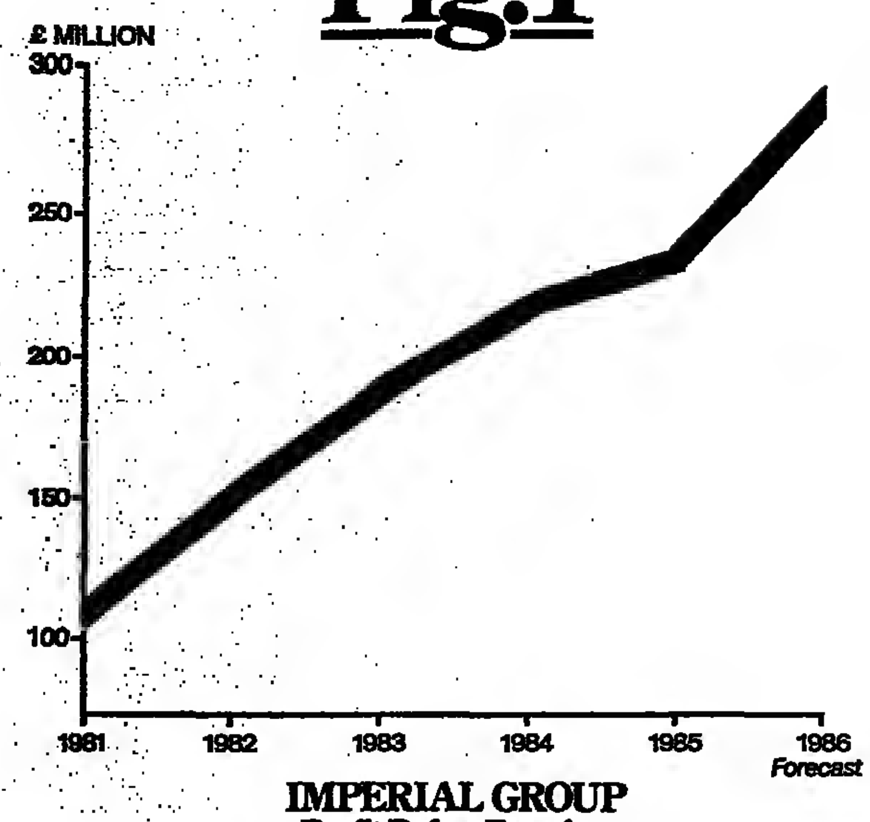
Culham's role is to design what effectively will be a very large version of the old fashioned radio valve, emitting a pencil-fine shaft of protons and then to neutralise these protons.

A very bright beam of this kind could have a dual role in a future space defence, say senior scientists from the Strategic Defence Initiative Organisation (SDI) in Washington. Culham's beam sources are already close to what they need, they say.

They believe that the neutral particle beam will prove a lethal space weapon at very long ranges, because it will remain finely focused in the vacuum of space, and is unaffected by the earth's magnetism. It also delivers its energy deep inside its target.

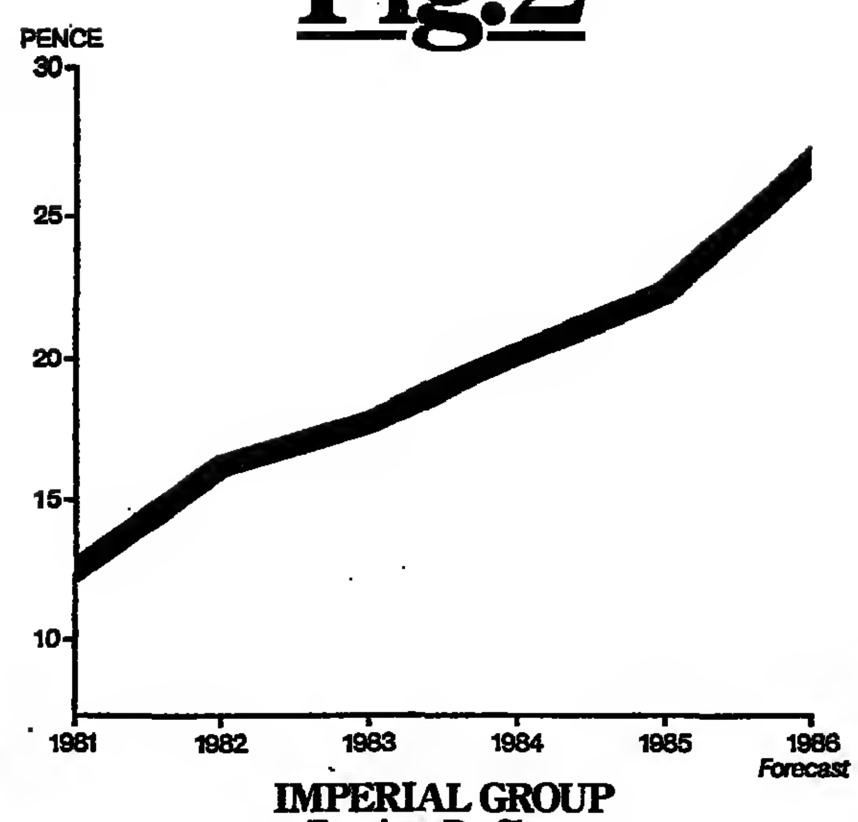
Culham has already demonstated that such beams are unaffected by magnetic fields, by its work for the European JET (Joint European Torus) nuclear fusion project in using such beams to superheat the JET experiments. They have also shown that such beams can cause immense damage at short range

Fig.1



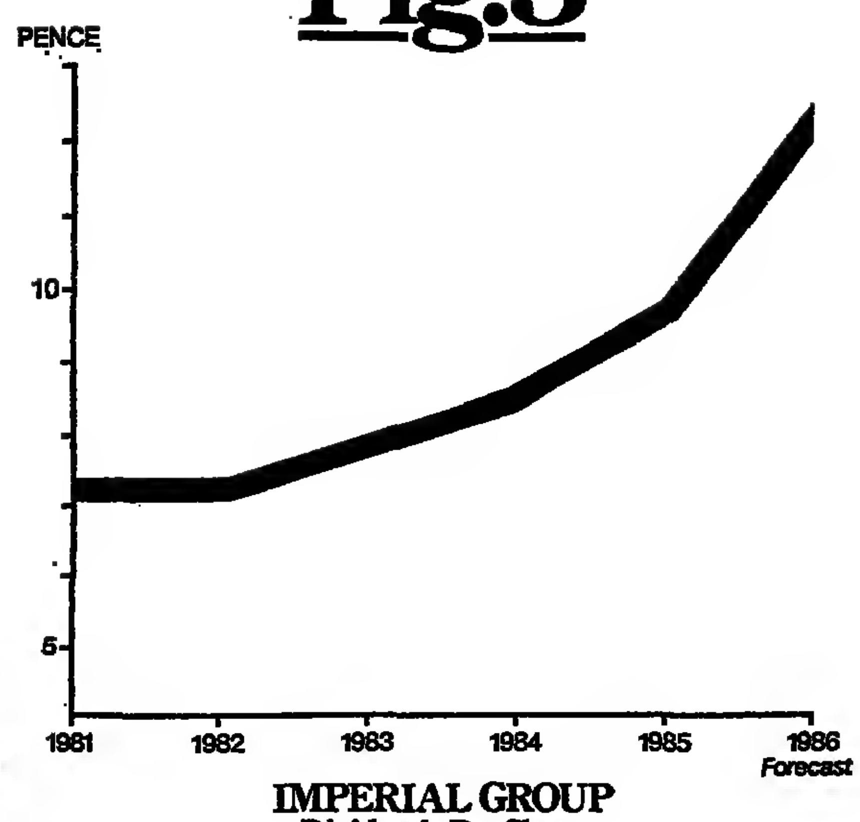
IMPERIAL GROUP
Profit Before Taxation

Fig.2



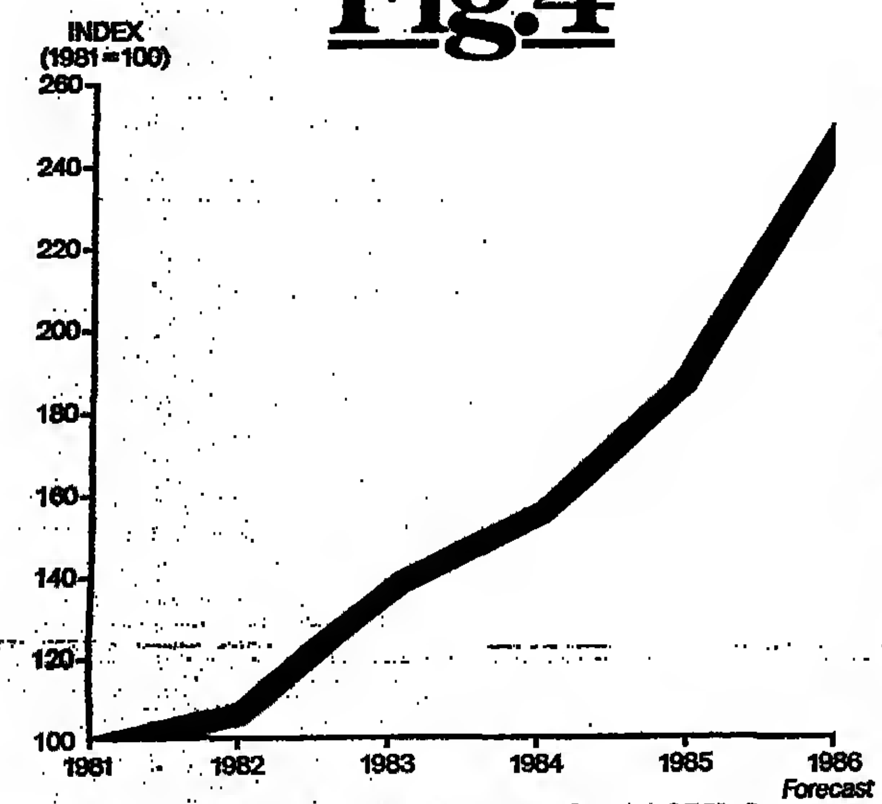
IMPERIAL GROUP
Earnings Per Share

Fig.3



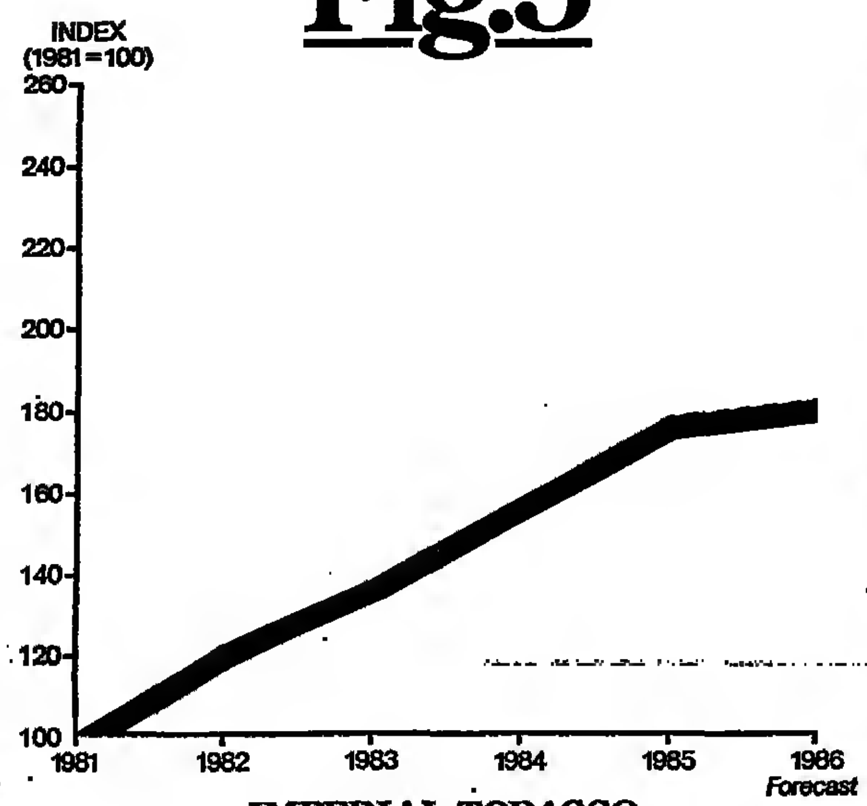
IMPERIAL GROUP
Dividends Per Share

Fig.4



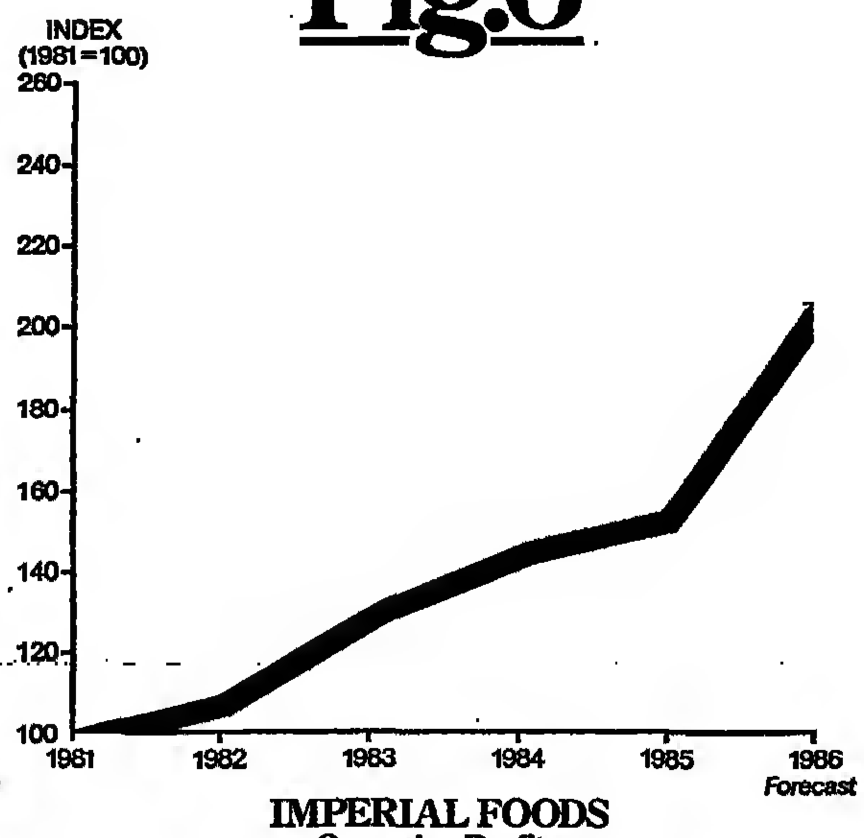
IMPERIAL BREWING & LEISURE
Operating Profits

Fig.5



IMPERIAL TOBACCO
Operating Profits

Fig.6



IMPERIAL FOODS
Operating Profits

Imperial in 1986: we thought you should see the figures.

Imperial, commentators agree, is a blue chip company. But what does that mean?

This is what Webster's says it means:

"A stock issue of high investment quality that usually pertains to a substantial well-established company and enjoys public confidence in its worth and stability."

"A consistently successful and profitable venture or enterprise."

"An outstandingly worthwhile or valuable property or asset."

Look at the tables above and you'll see the profile of a blue chip company.

Imperial invests: in brands, new brands, new markets, people, production, training, incentives, distribution, development.

Over the last three years, our capital investment alone has amounted to £448m.

Since 1981, our profits have grown at an average annual rate of 23%: precisely our forcast for the current year.

For 1986 and beyond, we shall continue to invest: whatever it takes to make our businesses more profitable and our company more valuable.

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This is the Imperial way.

Famous brands doing famously.
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THE ARTS

Architecture/Colin Amery

Social and optical awareness

I believe it was Patrick Leigh Fermor who, when he was writing about Roger Hinks, first used the expression "ruthless optical awareness." It describes well the kind of sensibility that is needed to look at architecture and cities. Such ruthlessness has to be learned; it is acquired by looking at paintings, sculpture, buildings, landscapes and cities not as artefacts but as areas where reality and imagination meet.

Why ruthless? Because when looking at anything you must choose to accept or reject its different elements—its composition, its finish, or its materials; you have to be prepared to make judgments.

One of the problems with architecture is that the judgments which affect the quality of design and the quality of life are made too often by untrained eyes, by eyes more experienced in scanning the balance sheet than the drawing board.

These thoughts are prompted by two unrelated events. One is a small exhibition at the Fine Art Society in London until the end of the month called *The World of Mary Ellen Best*. She was an amateur artist who painted the world she lived in during the first half of the 19th century in intimate and moving detail. The second is a discussion paper prepared for the Department of the Environment by the developers' interest group known as the Property Advisory Group. Rejoicing in the alluring title *Town and Country Planning (Use Classes) Order 1972 Report*: this is more interesting and important than it sounds.

Where these two events are connected is in the area of awareness. The DoE is considering a change in the rules that determine how buildings are used so that "modest businesses" can be carried on in family houses (employing up to five people), shops can more easily become offices and churches can become dance halls without planning permission.

There is little sign here of any awareness that cities are about anything other than making profit.

The world of the 19th century lady painter Mary Ellen Best shows in a quiet way those domestic virtues that lead to harmonious and civilised life. She painted the interiors of her homes in Yorkshire and the houses she lived in during the three continental tours she made before she married and settled in Germany. Her liking for cities as places both to live and work in shines through her pictures. As well as her lodgings she painted the interiors of German museums and churches, Dutch markets, religious processions and the world of domestic servants.

"A Summer House, near Fulda," by Mary Ellen Best

These watercolours can tell the historian about the furniture, fabrics and organisation of the early 19th century home. But they also speak of life in the city with poignancy and understanding. She has that optical awareness that presents to the spectator a view of the world that both satisfies and stimulates his imagination. What kind of bureaucratic mess are we in today when a group of estate agents and developers can advise the government in a manner that sees the city merely as so much plant with which to produce an income?

The planning rules of this country have become absurdly complex and they are frequently open to abuse and manipulation by special interest groups. If the Use Classes Order reform does become law, what will happen to the remaining few residential areas in the centres of our cities? In central London the last few residential streets and Georgian squares will become offices occupied by commuters. The centre will be even more dead than it is now. Why not allow a parallel change that will *encourage* people to live in city centres—to go shopping, have babies, walk in the park and create communities again?

There are some arguments for changes; one of them should be to defend the residential conservations from the ceaseless intrusion of offices. The recent direction upon local authorities to follow the pressures for change ("central government has decided as a matter of policy that change is in the public interest and should not be obstructed") contradicts the spirit of conservation and favours the entrepreneur at the expense of the many.

Planning rules which so closely affect our lives must be looked at far more objectively than they are at present. All architectural masters demand both social awareness and "ruthless optical awareness"; planning is too important to be left to surveyors and developers; it is as much the concern of the artist and the architect. While beauty cannot be legislated we can be spared the estate agent as the sole inspirer of our urban environment.

Jonathan Burrows

Clement Crisp

On Saturday afternoon Jonathan Burrows appeared at Covent Garden for the first time as Widow Simone in *La Fille mal gardée*. There was much to admire about this début in a role which I have found remarkably short on either humour or charm in recent years at Covent Garden. The part is not easy. It treads a narrow path of travesty playing which should never degenerate into a "drag" display of fleunted outrage and pantomime grotesquerie.

Stanley Holden's great original was clearly a dance-actor having huge fun as a bossy and independent mother. Ronald Emblen, David Bintley, the best interpreters since Holden, have in their own happy ways mined this same vein of comedy, and from his first appearance it is clear that Mr Burrows can do the same. He avoids the exaggerations that are a cheap way to laughs, for there is, as the armature of *Fille's* action, a good sense, an understanding of moral proprieties as in Molière's comedies, which must not be caricatured.

So Mr Burrows' Simone is a brisk old dear (as who wouldn't be, with Lise as a daughter!), essentially good-natured, and as nimble as one could wish. With his understanding and love of folk-dance, with a dramatic range that encompasses roles as diverse as the *Nutcracker's* eponymous hero, whom he makes both dashing and sensitive, and the mad doctor of *Different Drummer*, Mr Burrows has taken the first bright steps to claiming Simone as his own. It is, as ever with débuts, something too fussy, but the second act was very sure in effects; the clog dance was as quick in accents as one could wish, and the personality always true and agreeable.

The performance was led by two bright young artists as Lise and Colas. Karen Paisey is a pretty dancer. Movement is light, easy; the outlines of the choreography, as of her elegant feet, are clear, and she brings to Lise a sunny and engaging good humour. Her naturalness, and a trusting innocence in the second act mime-scene, are most beguiling. Bruce Sanson looks very boyish, and he still has that coltish air to his dancing which we noticed at his Ballet School matinee début in this role five years ago. There has latterly come an appreciable strengthening of his technique. Steps, lines of movement are more firmly and securely drawn, and the gangling days of mere promise are gone. In matter of acting he gives an innocent grace to Colas which is very touching.

David Blair, stalwart young hero of the first performance, had a demi-caractère energy in the role; Mr Sansom, delightful in his sincerity as in his charm, looks rather more like a young aristocrat strayed from Le Petit Trianon and its dairy. But the role is alive, and the affection between the two lovers touches the heart, as it should.

It must be said, though, that the generality of interpretations in *Fille* at the Opera House now look as if the company were patronising the ballet rather than interpreting it full-out. Certain performers—not least Lise's friends—give the impression that they are doing us all an enormous favour by appearing. The ballet needs emotional spring-cleaning to bring back the sparkle of its choreography and the genuine warmth of its feelings.

Not About Heroes/Cottesloe

Michael Coveney

Stephen MacDonald's play about Siegfried Sassoon and Wilfred Owen has been knocking around for a few years since surfacing on the Edinburgh fringe; it pops up in the Cottesloe partly because Mr MacDonald is a member of the Ian McKellen/Edward Petherbridge NT company, partly because there is always an audience for this sort of genteel theatrical parlour game.

MacDonald, who plays Sassoon, recalls his first meeting with Owen (Simon Dutton) in the Craiglockhart War Hospital in 1917. He does so from the vantage point of 1932, tweedy and reminiscent in his country house *Memoirs* vein. The gist is that he fell for, encouraged, loved and lost the younger man whose genius he was quick to recognise and keen to promote. Owen knows he is neurotic but claims to be no longer neurasthenic. After recuperating from shell-shock, he wants to go back to the front. War is his business.

Sassoon's feelings of disgust and pacifism are confused with a selfish obsession, but love never dares speak its name. Devotion is fuelled and flustered by the impetuous, charming letters of Owen on poetry and the War that MacDonald has skilfully woven into his text; they see off the gruff intervention of Robert Graves ("the sort of man you like better when he's left the room") and fortify the afflicted Sassoon who, in the later stages, after the head wound, turns into a rather fussy old dear in a bath chair.

Alastair Muir

Stephen MacDonald and Simon Dutton

We hear, of course, plenty of good poetry. "Anthem for Doomed Youth" never sounds less than a truly great poem and the just amendments Owen made are incorporated into one of the many tutorial *têtes à tête*. This style of dramatic writing I find coy and nudging but, on its own terms, it is done well. It just sounds to me more like the matter of a teatime radio play. It is indicative of Michael Simpson's production of hushed library tones and name-drops that the fatally wounded Owen, wrapped in a red blanket at the Sambre Canal, should be obscured from view by a down-stage table of papers and books.

Mötley Crüe/Hammersmith

Antony Thorncroft

Mötley Crüe, a four-man band from Los Angeles, have one simple, childlike, ambition—to be the loudest pop group in the world. At one time they also wanted to be the nastiest; despoilers of virgins, saviours of the drink industry, public relations consultants to the devil, but really the evil just is not there. They might have a nice line in umlauts, in controlled on-stage explosions and in verbal abuse, but underneath the make-up and the rude gestures you can easily spot nice intelligent pop millionaires, anxious to finish this world tour so they can get home and bath the kids.

For some reason American heavy metal bands just cannot match the loutish, music murdering, slobbiness of their British rivals: I think they are too hooked on the US virtues of business success and the commercial lure of playing to a mass audience. California can only be pseudo punk.

Even so Mötley Crüe do not encourage sleep. Their act contains more cascading fireworks and leaping tongues of fire than you expect outside a GLC carnival, and there is a particularly good moment during the drum solo of Tommy Lee when his kit, along with Lee, moves to the front of the stage and then rises slowly to an almost vertical position. OK, so he is strapped in but this act of suspension manages to enliven the dreary obligatory drum solo. He must learn, however, to catch some of the drum sticks he tosses, with misplaced bravura, into the air.

Lee is the busiest member of the band because it performs without a keyboard player; he is constantly dashing down the steps from his elevated postern to bash the keys and then tearing back again. But then Mötley Crüe are a restless band. Their music sometimes sounds ominously melodic and although they managed at the Hammersmith Odeon to turn up the volume during the performance in songs like "Louder than hell," they did not cross my pain threshold. But despite being a heavy metal band that actually plays its instruments, Mötley Crüe is not completely respectable—singer Vince Neil wears his codpiece back to front (but then he is fashionably vibrato) and guitarist Mick Mars can make his instrument sound really nasty. Anyone looking for a comfortable shock should be well satisfied.

American play at Hampstead

"*Orphans*" by Lyle Kessler will open at the Hampstead Theatre on March 11 with Albert Finney, Kevin Anderson and Gary Cole in the cast. A joint production of Hampstead Theatre and Steppenwolf Theatre, Chicago, it is directed by Gary Sinese and designed by Kevin Rigdon.

Trevor Nunn to direct 'Chess'

Trevor Nunn, joint artistic director of the Royal Shakespeare Company, has taken over the direction of *Chess* following Michael Bennett's withdrawal. The show, produced by its creators Tim Rice, Bjorn Ulvaeus and Benny Andersson with Robert Fox and the Shubert Organisation, will open at the Prince Edward Theatre on May 14.

Rozhdestvensky, Downes/Barbican

Andrew Clements

Four concerts with the London Symphony Orchestra at the Barbican this month constitute the Nikon-Rozhdestvensky series. Gennadi Rozhdestvensky now seems to concentrate his London appearances on the LSO, and there is no doubt that the partnership is mutually beneficial: the orchestra responds well to his kind of inspirational direction and relishes the sense of occasion he brings to his concerts.

On Thursday the second of the series was devoted to Sibelius. Old recordings for Melodiya are testimony to Rozhdestvensky's long-standing sympathy for the composer, able to shape and articulate the miniatures of the *Pelleas and Melisande* Suite as much as his Fifth Symphony. One would expect the machine-like inevitability of the symphony's finale to appeal to his laconic platform manner, keeping the movement on course with a shrug here, a flutter of the hands there; less predictable power with which the first movement was charged, its weight pivoted about the remote, lingering bassoon solo in the development, which was given more than its usual significance.

In the Violin Concerto the soloist was Henryk Szeryng, now an unfrequent visitor. His technical finish and incisive tone were as formidable as ever, shaded a little only when Rozhdestvensky failed to curb the orchestral brass, but otherwise: delivering the concerto with iron-clad assurance. With all that assurance, however, there seemed no great affinity or insight—no passion in the opening solo, only pyrotechnica in the finale. When expression was applied it came on an unconvincing broad brush, point-making of a coarseness that quite disrupted the sense of the main cadenza.

Yesterday afternoon the BBC Philharmonic Orchestra, under its principal conductor Edward Downes, made its debut at the Barbican. Although a regular at the Proms, the BBC Philharmonic is otherwise rarely heard in London; on this evidence it should return as frequently as any of the other orchestras based outside the capital. Under Downes it has been welded into a secure, highly responsive unit, quite capable of handling the most demanding scores, as its recent recording of Maxwell Davies' Third Symphony had already demonstrated.

Here Elgar's Second Symphony was paired with Britten's *Our Hunting Fathers*. One of the happiest results of the renewed interest in Britten's early music since his death has been the rehabilitation of this "symphonic cycle," establishing it as possibly the finest and certainly the most radical work of the pre-*Grimes* years. Downes brought out that radicalism clearly, keeping the textures lean, the instrumental lines incisive. Heather Harper was the soloist. A pedant might have wished for more operatic opulence in "Messalina" to underscore the satire further, but could not have faulted the unfussy way in which the baffling Prologue and almost equally opaque Epilogue were delivered, nor the nimble virtuosics of "Rats Away!"

In the Barbican, Elgar 2 is a big, potentially overwhelming experience, putting an orchestra that essays it under close scrutiny. The BBC Philharmonic emerged from the test with high marks, as most certainly did Downes. His stock as both a conductor of opera and of complex contemporary works is such that one sometimes forgets how comprehensive are his performances of the late romantic symphonic repertory. He presented the Elgar symphony not from the English viewpoint of the Boult-Barbirolli school but simply as part of the mainstream European tradition, an approach to which it responded magnificently, with a clear-sighted path through the first movement and finely graded climaxes in both of the central ones.

*

In the Elizabeth Hall on Friday Mitsuko Uchida and the English Chamber Orchestra added two more Mozart piano concertos to their tally, the D major K451 and E flat K482. This was the first concert of the current series I had heard, yet it did not quite live up to the expectations raised by the debut of the Uchida/ECO partnership in the same hall a year ago. Both concertos contained fresh, imaginative ideas, passages when soloist and orchestra struck sparks of unalloyed creativity from each other. But there was also a measure of unsettled playing from Miss Uchida, particularly in the first two movements of the D major, and some coarsely balanced woodwind at crucial moments in both works, suggesting that the interpretations still needed time to gel, and perhaps some performances in a less pressurised, high-gloss setting.

BBC Singers/St. John's, Smith Square

David Murray

On Friday the BBC Singers, conducted by Simon Joly and accompanied by the Endymion Ensemble, undertook a pair of massive modern choral pieces. One was Hans Werner Henze's cantata after Giordano Bruno, *Novae de infinito laudes*, a rich eco-romantic brew that does without upper strings but has a prominent quartet of solo voices. The other was Harrison Birtwistle's *. . . agm . . .* after Sappho, which must be just as sophisticatedly complex but sounds starkly monolithic.

Though Birtwistle's is the more recent work, it was placed first (which as it turned out didn't flatter the Henze). The impact of the piece is so specifically aural as to resist verbal description. On the surface the choral incantations seem continuously dense and simple, with the three instrumental groups — high, low and "punctuating" — sometimes offering ritualised patterns of their own, always creating an astonishing effect of depth and perspective. The sense of something ancient and "barbaric" is achieved, as with Birtwistle's inspired fanfares for the National Theatre *Coriolanus*, not by any routine devices but by the acrid, distilled harmonics that he has been wielding since his *Verses for ensembles*.

Something in the spacing of chords and the sinuous punctuation occasionally recalls Stravinsky's *Symphony of Psalms* — a noble ancestor. The tension is unremitting throughout the length of the piece (about a half-hour) until the last bars, when the percussion repeats a skeletal rhythm and is cut off by a woodwind-blurt. *Novae de infinito laudes* had its traditional side thrown into plainer relief than its novelties. It is an opulent score, and its many-voiced post-tonal harmony — not contrasted often enough, perhaps, with anything simpler — tended to blur in the ripe St John's acoustic. No fault of the BBC Singers, who were excellently focused, nor maybe even of Henze, whose plan in using a body of low strings exclusively to project the bass line *ought* to work helpfully; but it was often tantalisingly difficult to make out just how the harmony was meant to be proceeding.

The result was to leave no doubt that the cantata is designed to sound both imposing and visionary, but a good deal of doubt about how well-earned those effects are. The four soloists contributed strongly, being both well-matched and individually attractive: Sarah Leonard, Ameral Gunson, Martyn Hill and Peter Savidge were equally fervent in declamation.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

Feb 14-20

Music

PARIS

Ensemble Orchestral de Paris: Bartók, Stravinsky (Mon). Auditorium de la Sacem, 225 ave Charles de Gaulle, Neuilly (45626757).

Katia Ricciarelli recital (Mon). Théâtre de l'Athenée (47426727). Tatiana Nikolaevna, piano: Bach, Beethoven. (Wed). Salle Gaveau (45632030).

Orchestre de Paris, conducted by Michel Tabachnik, Ana Bela Chaves, alto: Beethoven, Bartók, Dutilleux (Wed, Thur). Salle Pleyel (45610630).

Ventsislav Yankoff, piano: Beethoven, Chopin, Ravel (Thur). Salle Gaveau (45632030).

ITALY

Milan: Teatro alla Scala: Bernd Weikl (baritone). (Mon) Box office: 809126.

Naples: Teatro san Carlo: Michele Campanella, piano. Bellini, Wagner, Mozart and Gounod (Mon). (418266).

Monfalcone: Teatro Comunale: Pergolesi's Stabat Mater and sonatas. Clemencic Consort conducted by Rene Clemencic. (Thur) (470470).

Rome: Teatro Olimpico (Piazza gentile da fabriano); improvisations and divertissements by the pianist Isaac Steiner and the David Short brass ensemble (Wed). (393304).

Rome: Oratorio del Gonfalone (Vicolo della Scimmia 1/B – Via Giulia): Soprano Ioana Bentoin accompanied by Jean Francois Antonioli, Faure, Schumann, Debussy and Ravel (Thur). (655952).

Rome: Teatro Brancaccio (via Merulana, 244) Orchestra of St John's Smith Square, conducted by John Lubbock. Brahms (Wed). (730202).

Auditorium via della Conciliazione: Norbert Balatsch conducting, Sergio Perticaroli, piano. Prokofiev, Mortari and Händel (Mon and Tue). (6541044).

LONDON

Dmitri Alexeev, piano. Chopin. Queen Elizabeth Hall (Mon). (9283191).

Bach Choir and Philharmonia Orchestra, conducted by Sir David Willcocks; with Ann Mackay, soprano. Bruckner Mathias and Patterson. Royal Festival Hall (Tue). (9283191).

Royal Philharmonic Orchestra, conducted by Michael Tilson-Thomas; with Dmitri Sitkovetsky, violin. Beethoven. Barbican Hall (Wed). (6388891).

London Symphony Orchestra, conducted by Gennadi Rozhdestvensky, piano. Debussy, Ravel and Stravinsky. Barbican Hall (Thur).

Philharmonia Orchestra, conducted by Andrew Davis; with Felicity Lott, soprano. Britten and Elgar. Royal Festival Hall (Thur).

NETHERLANDS

Amsterdam, Concertgebouw. Edo de Waart conducting the Netherlands Philharmonic. Keuris, Bruckner (Mon). The Concertgebouw Orchestra under Hans Vonk, with Dmitri Alexeev, piano. Mendelssohn, Prokofiev, Debussy, Ravel (Wed, Thur). Recital Hall: Schubert piano recital by Imogen Cooper (Mon). Guy de Mey, tenor, and Raphaella Smits, guitar (Tue). Gabrieli String Quartet (Wed). (718345).

Rotterdam, De Doelen. The Academy of St Martin-in-the-Fields led by Iona Brown. Händel, Vivaldi, Shostakovich, Tchaikovsky (Mon). Recital Hall: Piet Veenstra, piano. Schubert, Beethoven (Thur). (142911).

Utrecht, Vredenburg. Edo de Waart conducting the Netherlands Philharmonic. Keuris, Bruckner (Wed). The Rotterdam Philharmonic under James Conlon, with Roberta Alexander, soprano; Jard van Nes, contralto; and choir. Copland, Mahler (Thur). (314544).

SPAIN

Madrid: Chamber music cycle at Teatro Real, with Spanish Chamber Orchestra accompanied by Steven Dann, viola. Barber, Bloch and Toldra. Plaza de Oriente 4. (Tue). (2419739).

Madrid, Mozart Cycle at Foundation Juan March: Trio Mompou. Castello 77. (Wed). (4354240).

VIENNA

Hagen Quartet with Eduard Brunner, clarinet. Beethoven, Weber, Schubert. Konzerthaus, Schubert Saal. (Mon and Wed).

Kaoru Ozaki, piano. Mozart, Schubert, Schumann, Chopin. Bösendorfer Saal. (Tue).

Vienna Symphony Orchestra, conducted by Heinz Wallberg, with Jan Pospichal, violin. Rubin, Beethoven. Musikverein (Wed and Thur). (658190).

NEW YORK

New York Philharmonic (Avery Fisher Hall): Zubin Mehta conducting; Yo-Yo Ma, cello. Elgar, Bruckner (Tue). Lincoln Center (8742424).

Carnegie Hall: Earl Wild piano recital Liszt the Transcriber, a programme of Bach-Liszt, Beethoven-Liszt, Verdi-Liszt, Schumann-Liszt, Chopin-Liszt, Wagner-Liszt, Paganini-Liszt (Wed). (2477459).

WASHINGTON

National Symphony (Concert Hall): Andrew Litton conducting; Shura Cherkassky, piano, and Women of the Oratorio Society. Gershwin, Tchaikovsky, Holst (Tue); Leopold Hager, conductor/organist; William Steck, violin; Rudolph Vhrsky oboe. Händel, Mozart, Bach, Mendelssohn (Thur). Kennedy Center. (2543776).

CHICAGO

Orchestra Hall: Montagnana Consort. Bach, Schumann, Dvořák (Wed, 5.45); Chicago Symphony. Leonard Slatkin conducting; Cho-Liang Lin, violin. Fine, Bruch Nielsen (Thur); Chicago Symphony Chorus and Glen Ellyn Children's Chorus. All-Britten programme. (Thur). (4358122).

TOKYO

The Vienna Octet: Mozart, Schubert. Shinjuku Bunka Centre (Mon). (5711689).

The Boston Symphony Orchestra, conducted by Seiji Ozawa. Bartók, Beethoven. Hitomi Memorial Hall, Showa Women's College, near Sangenjaya. (Tue). (5711689).

Prints and drawings

Antony Thorncroft

The department of prints and drawings at the British Museum has come up with the perfect answer to those who questioned its judgment in turning down 70 Old Master drawings offered by the Duke of Devonshire. It was offered the Chatsworth drawings for £5m; they were subsequently sold at Christie's for over £21m.

The museum has mounted an exhibition of some of the prints and drawings that it has collected in the past five years, and the 200 odd items show just what can be acquired in this area with modest funding. The BM did not have the cash available to buy the Chatsworth drawings. Its purchase grant this year is less than £1.5m for the whole museum.

But, because of international goodwill towards the department, it can improve its collection of around two million items through gifts from artists, such as Henry Moore and Ronald Searle, bequests from collectors, tax incentive deals with vendors, and favours from dealers. The show of recent acquisitions, which can be seen until May 4, reflects the variety of the sources.

Of particular interest is a monotype by Castiglione which the Duke of Devonshire, mindful of the hrouhaha over his drawings, first offered to the BM when he decided to sell some prints last year. Entitled *Theseus Finding the Arms of his Father* it is one of the most important itema to enter the collection in many years. The BM will have paid much less than the £345,600 which secured another monotype during the Christie's auction. Also on show is the one drawing from Chatsworth which the BM did manage to secure in a deal after the sale: a Rembrandt pen and ink of the Amstel, the finest Rembrandt landscape in the museum.

Although it is probably the best collection of prints and drawings in the world, it has had weak areas. The exhibition reveals how these have been plugged. The 18th century French collection has been boosted with some delightful colour prints by Boucher; the Pre-Raphaelites were of top quality, but limited in number and have been enhanced by Rossetti's first Arthurian watercolour, *Arthur's Tomb*, and a most unusual drawing by Millais of a boudoir confrontation which reeks of eroticism; the 19th century German works have been improved with some Overbeck; and there have been important additions to the 18th century rococo.

The most appealing gains heve been a rare Sir Peter Lely portrait of a girl; the Samuel Palmer watercolour *A Cornfield by Moonlight with the Evening Star*, to which the public contributed cash; some flowers by the fashionable Scot, Charles Rennie Mackintosh; and two drawings by William Blake—a preparatory sketch for his Canterbury Pilgrims engraving, and one of *Mirth*, which shows him in a rare benign mood. Perhaps of most topical interest, in an entertaining and eclectic show, is *Please Remember the Poor Dancers*, a Rowlandson engraving of a destitute theatre company which could be Sadlers Wells.

AUSTIN ROVER. THE TRUTH.

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*The Engineer Magazine 9.2.84

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An oil-fired yen for yen

THE FALL in the price of oil has projected the Japanese yen into that magic, virtuous circle where even its disadvantages to investors, such as Japan's low rates of interest, are regarded only as further evidence of the currency's intrinsic strength. The development has dealt a further blow to the image of Japan in the 1970s as a country worryingly dependent upon a flow of energy and raw materials from abroad.

Within the last year there has been a remarkable re-assessment of the yen's value, with its long-awaited impact on the international competitiveness of Japanese industry. In April and Mey last year the US dollar purchased Y250. In September, when the US Government decided to throw its weight against the overvalued dollar, that figure was still Y240, though already sliding. Since then it has moved steadily downwards to Y 182 at the end of last week.

Most attempts to calculate the exchange rate that gives equal purchasing power in the US and Jepan throw up figures in the range Y190 to Y200 to the US dollar. But the fact that the yen may now, at last, be mildly overvalued in terms of its buying power. is probably irrelevant to its equilibrium exchange rate. This rate now has to cancel out three new factors conspiring to produce a yen shortage.

Recent weakness

Japan is one of the prime beneficiaries of the fall in the price of oil. According to Nomura, each $2 fall per barrel will boost real GNP by 0.2 per cent this year and 0.4 per cent next and will increase the Jepanese current eccount surplus by $2.8bn this year and $3.9bn next. On the assumption that the country will save some $8 a berrel this year, the oil price will add some $13bn to a current eccount surplus that was already expected to be $50bn et the start of 1986.

The recent weakness of the dollar is creating a self-perpetuating reluctance among Japanese companies, institutions and individuals to invest their cash surpluses in the US in unhedged fashion. It was their readiness to invest in the US which, a year ago, was holding the yen down in spite of Japan's daunting trading performance. These capital exporters have since burnt their fingers and the yen now has to rise to a rate that will re-establish their confidence that the dollar will not fall any further.

Finally, the interest income on Japan's net asset position abroad will soon cancel out the country's traditional deficit on invisibles, and thus remove this minor offset to the country's trade surpluses. The asset position is now well over $100bn and has been growing by some $40bn per annum.

All in all the Japanese Government now faces the tricky combination of an exchange rate thet threatens to move excessively in the direction Japan's trading partners want, coupled with a mounting surplus on current account. Moreover it faces this situation in a run-up to en economic summit in May, which, as tha host country, it badly wants to be a success. In an election year it would be most embarrassiog for Mr Nakasone, the Japanese Prime Minister, to find his economic policies singled out for criticism as being too austere.

Against this background it is easy to understand why, desplte the large adjustment in the yen's value, the Jepanese Government has decided to continue with voluntary restraint of the number of motor cars it exports to the US.

There are other steps the Government can take as well. Only a month ago the Government was pushing for international "interest rate disarmament" because it feared thet the yen would weaken if it tried to stimulate domestic growth with an easier monetary policy. It bas since discovered that the exchange markets are no longer deterred by lower yen interest rates. so it can afford to cut them further.

Secondly, with Japan's negligible inflation rate further reduced by the falling oil price. and with Japan's high flow of savings less ready to move abroad than before, the Government can afford to be less inhibited about fiscal stimulus and infrastructure projects

Thridly, the Government has commissioned a study, which should be presented in March, on ways of improving Japan's readiness to buy goods from abroad. The study is expected to go beyond the question of import controls and into more basic reasons why the Japanese market is tough to penetrate. Given that the falling oil price is by itself going to increase Japanese internal demand, Mr Nakasone needs to show that be is taking whatever additional steps be can to convert some of that demand into import orders.

Test case for labour laws

NEWS INTERNATIONAL's dispute with the printing unions has in the space of a few weeks woven around itself a tangled web of law, with the company and its unions spinning round each other in the High Court at the end of last week—reaching proportions which would be ludicrous were the issues not so serious. Criminal law will now be brought in as the violence grows outside the company's new printing plant at Wapping but many of the weekend pickets recognise that given the relatively limited numbers their cause is likely to attract nothing much is likely to be won on the streets of east London.

If the unions can win the dispute at all—and on virtually all reckonings other than the union's most overt public stance it is hard to see how they can win it—then Wapping's barbed-wire fortifications will meen that the battleground will be elsewhere, at whatever points the unions can bring pressure to bear. In other words, action against subsidiary and secondary points. That means civil actions against the unions for alleged secondary action are likely to increase.

The number of those pressure points is limited—principally, the company's road-bound distribution system—especially in comparison with the leverage the same unions used to hold (and still do, in other newspapers) in their immediate past: instant pressure threatening a uniquely perishable product. Not even inside the gates, let alone inside the plant, at Wapping, do the print unions have such leverage.

In that sense, the legal contortions around the National Graphical Association's on-off industrial action against the Times' supplements is a sideshow, a clear index of the absolute decline of the NGA's considerable industrial strength within News International.

But limited as the effects of the unions' actions in prosecuting the dispute might be, they and the whole progress of it are raising, yet again, questions about the role of the law in industrial relations. The Government's reforms in this area since it came to power have been both reasonable and sensible, an attempt backed by a wide measure of public support to shift away from the unions the balance of industrial power which the strikes of the 1978-79 "winter of discontent" so starkly demonstrated had tilted too far in their direction.

The success of the reforms on picketing and on ballots is measured by public attitudes; fairness is an important element in that, and where the Government's aims have been out of line with the interests of union members most spectacularly, in the as yet unbroken string of victories for the unions in the political fund ballots, they have not been achieved.

Are the company's and the unions' legal stances at Wapping fair? Certainly, the company has exploited the opportunities presented by the law. Sacking a striking workforce, or discrete group of strikers, is relatively normal British practice—and so is taking them on again when the strike is over. But Mr Rupert Murdoch and his advisers, secure in the knowledge of their alternatives—site, printing equipment, workforce, distribution system—have held the law to its letter, and the company's previous printers remain sacked.

Promising route

Whether some accommodation will be reached with the sacked printers through the Advisory Conciliation and Arbitration Service, remains to be seen. But given Fleet Street's history the transition to modern technology and modern labour practices was always likely to involve a Wapping-style confrontation.

Certainly the national newspaper industry will not be the same again. But the implications could go wider. Legally binding agreements — one of Mr Murdoch's original demands for Wapping, rejected by the unions — are now starting to be seen by some elements on the left as something which ought to be embraced generally by unions.

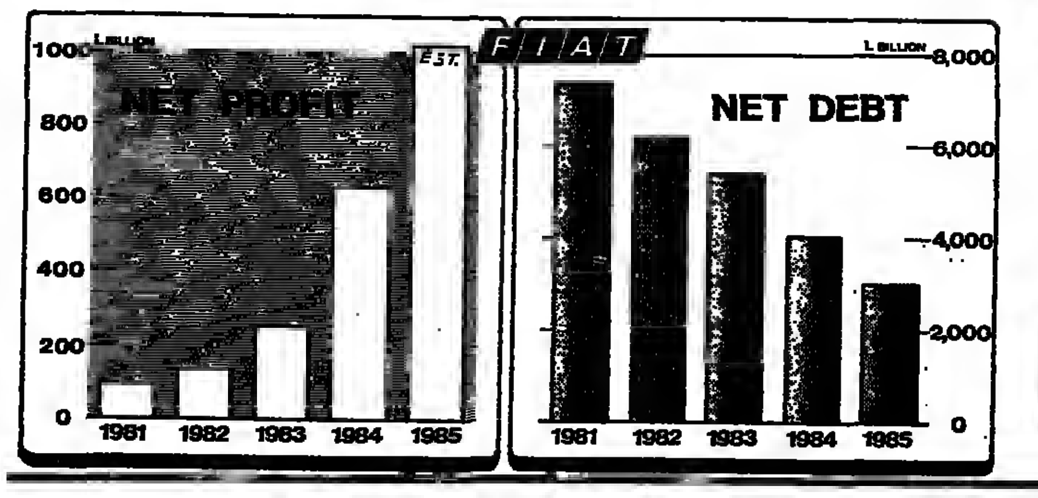
Agreements of this sort, commonplace outside the UK, may increasingly be regarded by unions and employers, as a promising route towards stability and responsible behaviour in industrial relations.

THE GROWTH OF FIAT

First the recovery, now the development phase

By James Buxton

Cesare Romiti—satisfied with Fiat's achievements



FOR the past two months the name of Fiat has been in the British Press almost every day as a participant in the Westland drama. To anyone who only thinks of it as a producer of cars it must have been a revelation to discover that it was remotely interested in aerospace.

Fiat is flexing its muscles. In 1984 it was rated the 25th biggest company in Europe, and last year its turnover went up 11 per cent to L26,330bn (£11.6bn).

For the first nine months of last year, Fiat negotiated to merge its car subsidiary Fiat Auto, which accounts for just over half its total turnover, with Ford Europe. The merger would have created a motor group twice as big as any other in Europe. But in October the talks were called off. The question now is where Fiat goes from bere.

The fect thet those talks took place on equal terms was a tribute to Fiet's astonishing recovery from the state it was in the 1970s when management effectively lost control of the workforce and the group piled up (concealed) losses.

Following the triumph of Fiat Auto's management in the big strike of 1980, Fiat won the right to employ almost exactly as many workers as it needed.

In the three years that followed, Fiat Anto's lebour productivity doubled and its break-even point dropped from 1.65m vehicles a year to 1.2m. Absenteeism fell from double figures to negligible levels and union membership dropped to less than a quarter of the workforce. The company transformed the factories by antomation, read the riot act to its less than a quarter of the work- shook up its marketing network. It rediscovered the creative ability to design and produce a series of good new models, ranging from the Fiet Uno, which came out in 1983, to the Lancia Thema luxury model.

Fiat Auto's management revolution was built on a particularly strong foundation: a predominant position in the Italian market which has not suffered real recession in the 1980s and to which Japanese cars are admitted at the rate of little more than 2,000 a year. Last year, for example, Fiat and Lancia won 52.2 per cent of the domestic market, which absorbed two-thirds of the 1.4m cars Fiat sold in Europe.

But Fiat went into the talks with Ford in the knowledge that despite a European market share of 12 to 13 per cent, making it one of the four leading car makers in the continent, the medium-term prospects of that market were for slow growth, ever fiercer competition and low profitability. The possibility of uniting with Ford, whose European market share is about the same size as Fiat's, had immense attractions: it held out the chance of cutting costs by more than 10 per cent, through collaboration in components and, in due course, jointly produced cars.

The idea failed at the last fence, mainly because neither side was prepared to allow the other to have majority control of the new entity.

After the hreakdown of the talks with Ford, Mr Gianni Agnelli, Fiet's chairman, said that Fiat would continue to seek a partner in the European car business—but that objective seems to have acquired low priority. Mr Cesare Romiti, the very determined but unusually warm man who is Fiat's managing director, picked his words carefully when ba said: "The operation with Ford would have had immense advantages on a technical level.

"But," be went on, "Fiat has made such great advances in the field of cars in Europe that it can happily live on its own —better than the other four or five leading companies that are its competitors. Of course, if another opportunity comes along we will willingly examine it."

Mr Paolo Mattioli, Fiat's general maneger, says: "Fiat Auto is the most profitable car maker in Europe, the most automated, and the one with the youngest product range."

No doubt Volkswagen, Ford and Peugeot would have their own comments on that. Fiat has so far published neither its 1985 group net profits nor those of Fiat Auto. It has, however, disclosed that group net profit last year passed the L1,000bn (£450m) mark, a big jump from the L627bn of 1984, and the Fiat Auto's share of this was somewhere between the 53 per cent of turnover and the 66 per cent of investment which the car division makes up. That suggests net profits of at least 4 per cent on the subsidiary's turnover compared with about 2 per cent in 1984.

Group sales increased in real terms for the first time for four years, which Mr Mattioli interprets as a clear sign that the period of restructuring is over and that "the development phase can begin." Cash flow amounted to more than 10 per cent of sales et L2,674hn. Thanks to this, Fiat's debt, which earlier in the decade was the company's Achilles heel, fell by more than L1,000bn to just under L3,000bn — a level which Fiat regards as about the minimum required to finance its operating needs.

Fiat is financing more than three-quarters of its investment needs, which in 1984 were put at L8,000bn for the coming three years, out of cash flow — a higher proportion than Mr Mattioli said was possible at the time.

Even more proudly, Fiat executives point to the fect that in 1985, for the first time in many years, all Fiat's sectors were in the bleck. That means that Iveco, the Europe-wide industrial vehicles operation, which accounts for 20 per cent of sales and lost heavily in both 1983 and 1984, more than broke even after a change of management, and that Fiatallis, an ill-starred joint venture with Allis Chalmers of the US in the recession-hit field of earthmoving equipment, kept its head above water, despite virtually static sales. Last year Fiat bought out its US partner.

Mr Mattioli insists that Fiat's net profit margin of about 4 per cent of turnover is a "very impressive figure" for a group operating in Fiat's main areas of activity. "You can't compare our profitability with a company like IBM, you have to compare us with other groups in the sectors we are in . . . 75 per cent of our activities are in vehicle production," where returns are rarely glittering.

He emphasises that Fiat will remain predominantly a vehicles group. "We can still expand our share of the European car market by being more competitive," he says. He and Mr Romiti do not appear unduly worried by the possibility of the EEC Commission forcing Italy to phase out its restrictions on Japanese car imports. "It could happen," says Mr Romiti. "But we are more relaxed and far stronger now than we were five years ago. It costs us less to produce now than it did then, and people appreciate that the European car is better than the Japanese car of the same size.

> When we invest it is not to acquire new businesses but to strengthen existing ones

Bnt in the large, sparsely furnisbed rooms on the top floor of Fiat's Turin headquarters (Mr Romiti's office seems to have almost nothing in it, not even a clntter of papers) the senior executives acknowledge the obvious: that the group's non-vehicle sectors have the best prospects for rapid growth and good profits. For example, last year Fiat's production equipment sector, headed by Comau, saw its sales rise 14 per cent to L659bn, Telettra, the telecommunications concern, grew by 15 per cent to L475bn, Fiat Aviazione, which makes aero-engines, jumped 19 per cent to L443bn and Sorin, a bio-engineering company, had a jump in sales of no less than 28 per cent to L156bn.

These and other subsidiaries are almost dwarfed by Fiat's bigger divisons, which include tractors and vehicle components. But they are not marginal, either to Fiat or, usually, to the industries they are in.

"We are lucky," says Mr Romiti. "Other car companies, like General Motors, Ford and Mercedes Benz, are buying operations outside the motor industry in order to reduce the proportion of their activities that cars constitute. But we have these diverse activities under our roof already. When we invest it is not to acquire new businesses but to strengthen existing ones."

One important way in which Fiat intends to develop these sectors is by alliances—both with foreign and Italian companies, the latter likely to be mainly in the state sector. Telettra is to be put into a joint company with Italtel, the telecommunications manufacturer which belongs to Stet, part of the state conglomerate IRI, and which is more than twice as big as Telettra.

Exactly how this merger will work is still a mystery, but the result should be to blend Telettra's specialisation in transmission with Italtel's in public switching.

Fiat's interest in Westland helicopters in partnership with Sikorsky stems from motives that explain much about the group's aims. Fiat Aviazione has an ingenious web of licence and co-production agreements with all the world's major aero-engine makers. It also specialises in making transmission systems and accessory gearboxes for all the helicopters built by Aerospatiale of France.

If Fiat wins a stake in Westland it would want to sell these components not just to Westland but to Sikorsky for the US market. It would like to create a US-European pole in helicopters to rival Aerospatiale, the continent's major helicopter producer. This assumes that some form of partnership can be established between Fiat and Agusta, the State-owned helicopter concern (also a member of the European consortium) with whom there have been intermittent contacts for more than a year.

But perhaps at least as important a motive is the desire to get closer to United Technologies, Sikorsky's parent, and through it to gain access to the US Defence Department. Fiat has long been Italy's biggest defence contractor in armoured vehicles, marine engines, aviation and various components.

The Fiat group is one of Italy's stronger contenders for projects in President Reagan's Strategic Defence Initiative (SDI), which it hopes will also yield technological benefits in its other activities.

The Westland bid has ranged Fiat against Mr Bettino Craxi, the Prime Minister, who publicly backs Agusta. The quarrel is one of several disputes raging between Fiat and the Prime Minister, on subjects ranging from control of the Italian Press—where Fiat's interests are expanding in ways which, it has been alleged, breach the Press laws — to the conduct of economic and foreign policy.

The fact is that a healthy Fiat is likely to alarm any Italian Government, whose own freedom of action is so much more circumscribed. "Fiat is to the Italian state what the Duke of Burgundy was to the medieval kings of France — technically part of the kingdom, but barely less powerful than they were," says an intelligent observer of the Italian scene.

The present coolness between Fiat and Mr Craxi could hold up possible joint ventures with the state, but is regarded by most observers as something that will pass.

As for this year's prospects, Mr Mattioli says that Fiat is not expecting such a big jump in profits as it enjoyed last year —even the fruits of productivity improvements worked their way through to net profits in a way that will probably be consolidated this year.

Mr Romiti too is cautious about the future. "Yes, we are satisfied with what we have achieved," he says. "But you can't rest on your laurels. We've met targets in the past but we will have to try harder in the future, because we will be going faster. New cars have a gestation period of four to five years. If you make a mistake on one or two models, it can have very serious effects."

Men and Matters

Runners in the World Bank race

The US Treasury has a plausible explanation for the delay in naming the Reagan Administration's recommended successor to A. W. "Tom" Clausen, as president of the World Bank.

Though Clausen announced his resignation last October, his term does not expire until June 30. It would be invidious to name a successor too soon, the explanation runs, for he—the gender seems certain—would only find himself having to answer questions about, and take effective responsibility for, decisions over which he had no control.

"You can't come out a winner under those conditions," said a Treasury official. "Having somebody in mind does not necessarily mean we would announce it."

But there are those in Washington who think there is more to it than that. Some suggest the Reagan Administration itself is unable to agree on who would be the best man to lead the World Bank as it moves to centre stage alongside the IMF in efforts to manage the Third World debt crisis.

It is this more prominent role in prospect which helps to account for the extraordinary public scramble over a post which, by tradition, has been filled without much fuss by the nominee of the US President.

Washington conservatives, for instance, are anxious that whoever gets the job should be a person who shares their market orientated economic policy prescriptions.

The debate would already be over if Fed chairman, Paul Volcker, had decided to accept a White House offer which seemed more designed to get him out of the central bank than into the World Bank.

But with Volcker out of the running (apparently), the rest of the field comprises a mixture of thoroughbreds and workhorses. Some are actively seeking the job; others seem less enthusiastic about taking it on.

The latter group is made up mainly of politicians. Secretary of Labour, Bill Brock, Deputy Secretary of State and former investment banker, John Whitehead; and former US Treasury Secretary, William Simon, all have their backers. But none of them has expressed any public interest in the post.

Among those who would clearly be overjoyed to get the job is J. William Middendorf, current US ambassador to the EEC, who has staged what amounts to a public relations campaign in Washington in support of a candidacy which would shake the World Bank's boardroom.

"'Move along — move along.' I'll apply for a BR catering franchise, I'm warning you."

Second going

It must be with a sense that things have come full circle that Ronald Grierson, vice chairman of GEC, resigns his directorship of merchant bankers, S. G. Warburg.

Grierson, an effervescent 64-year-old, who first joined the bank at the invitation of the late Sigmund Warburg nearly 40 years ago, resigned once before.

That was in 1968. Warburg was then acting for Plessey in its takeover bid for English Electric. GEC, of which Grierson was already a director, moved in and thwarted the Plessey bid with an agreed merger with English Electric.

Though Grierson was not personally involved, Sir John Clark, Plessey's present chairman, protested to Warburg about his position and Grierson was asked to resign from the bank.

Grierson returned to Warburg in 1980, mainly to help in the expansion of the bank's North American business. But in the last few years, he has not been actively involved in its day-to-day operations.

He resigns for the second and final time now—with Warburg acting for GEC in its £1.2bn bid for Plessey, recently referred to the Monopolies Commission.

Grierson's career, in fact, has been studded with headline-making resignations—as deputy chairman and managing director of the Industrial Reorganisation Corporation in 1967, as the European Commission's director-general for industry in 1974, and as senior partner of stockbrokers Panmure Gordon in 1976.

Now, as then, he will still have plenty to keep him occupied. Apart from an increasingly busy role at GEC, he is on the boards of Chrysler and R. J. Reynolds, and recently took on the job of chairman of the South Bank Board which takes control of London's arts complex on the Thames after the demise of the GLC in April.

Rays a laugh

Dr Gerold Yonas reported back to Washington at the weekend that he is convinced Britain has some excellent research of the kind urgently needed by the "Star Wars" programme.

Yonas is chief scientist and deputy to Lt Gen James Abrahamson, director of the Strategic Defence Initiative Organisation, which is assembling the $26bn research programme for the defence against nuclear missiles.

British defence scientists took a hard look at the SDI programme last autumn and delivered a dossier of ideas on what they felt Britain had to offer.

Last week Yonas, a bearded physicist in his mid-40s with a quick and acerbic wit, led an American team on a visit to some of the laboratories most likely to land the first contracts outside the US. "We thought it was time to kick the tyres," he said.

Yonas was clearly impressed by what be found at labs such as Culham, Malvern and the Rutherford. Most of the ideas put forward last autumn are likely to win research contracts, he said.

Desperately anxious not to upstage Abrahamson's own visit to Britain this week, Yonas and his colleagues constantly took refuge in wisecracks and in-jokes to duck direct questions.

But they let slip that Britain, apart from a key role in developing what Yonas calls "the lynchpin of SDI"—space surveillance and target tracking—also has some compelling ideas on the new weapon themselves. Or has it?

Watch out for pluton beams, Yonas chortled, and his team collapsed in laughter around him.

Good food guyed

The menu at a Hungarian restaurant in Hampstead, London, includes: "Today's special. Egg on Rosay."

Observer

FOREIGN AFFAIRS

The key is trust, not verification

By Ian Davidson

THE ARMS control dialogue between East and West is moving along at a dizzying pace, at least at the level of public theatre. Mr Mikhail Gorbachev has told Senator Edward Kennedy that the Soviet Union is ready to negotiate a Euro-missile agreement with the US which would be quite separate from the parallel Geneva talks on strategic and space weapons. President Reagan says he hopes a Euro-missile deal can be agreed this year. Mr Paul Nitze, his special adviser, has been sounding out the allies. And very soon in Geneva, the US negotiators are expected to make a formal counter-proposal.

On the other hand, in Europe and among some American analysts, the tremor of hope is partly overlaid by a frisson of anxiety. For public consumption, the allies have decided to adopt a posture of keen but hawk-like interest: the Russian proposals can be tested only in the negotiations proper, but anything which looks like a positive contribution to equitable arms control will get a positive reply; since there has been more movement in the Soviet position in the past six months than in the previous six years, let us encourage it by giving Mr Gorbachev at least some of the benefit of the doubt.

The trouble is that the proliferation of Soviet proposals has not yet given the western allies a confident fix, either on what kind of arms control deal Mr Gorbachev is really after or, more importantly, on what he is aiming at in the broadest geopolitical terms. They were perplexed a month ago by his three-phase mega-plan for the complete elimination of nuclear weapons worldwide by the year 2000; they are also perplexed, and a little worried, by his much more limited and ostensibly conciliatory proposals on Euro-missiles.

The guts of the Gorbachev plan are: (a) that all US and Soviet Euro-missiles should be eliminated from Europe; but (b) not the Soviet SS 20s in Asia; and (c) that there should be a freeze on British and French nuclear forces, including a ban on the transfer of US missiles to Britain. The US counter-offer is likely to accept the first principle; to modify the second (a 50 per cent cut in Soviet SS 20s in Asia); and to reject the third entirely.

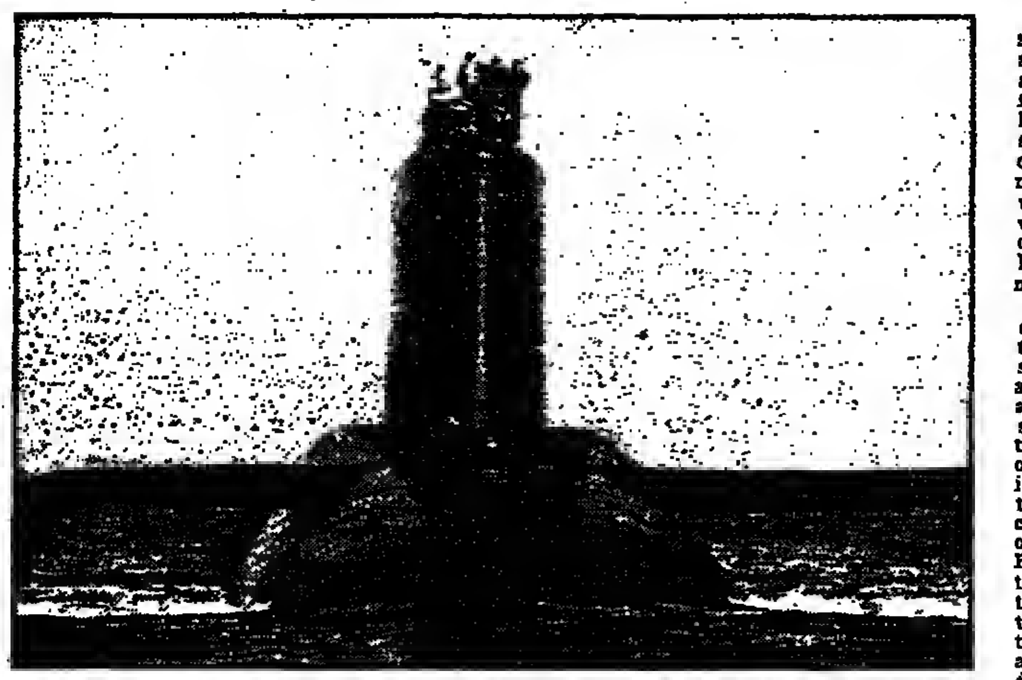
For Washington, the Soviet proposal has at least four attractions. It offers a postponement of the awkward moment when the Administration would have to decide whether to accept curbs on its Star Wars anti-missile defence programme. The productiveness of this year's Reagan-Gorbachev summit will be much enhanced if it seems to be leading to an early agreement on a more limited category of nuclear weapons. The elimination of Euro-missiles in Europe corresponds broadly with the so-called "Zero Option," first put forward by the US in the original Euro-missile talks five years ago. And it is a relief that the Soviet Union has stopped trying to have the British and French forces "counted in" as part of the western arms totals.

The Europeans see a more ambivalent picture. They were never really entranced by the original "Zero Option" five years ago, and they are not sure they like it any better now. When the Russians made it clear in 1981-83 that they were not interested in a negotiable deal on Euro-missiles, the alliance electorates were told that Cruise and Pershing II were necessary, not just to balance the SS 20s, but to provide an essential link between short-range battlefield weapons and the US strategic deterrent.

If all these weapons are now to be removed, will this be taken to imply a weakening of the transatlantic link? Not conclusively, perhaps; but the US would have signed away the right to deploy a certain category of weapons in Europe, which would be a major precedent in the Soviet-European-US relationship, whereas the Soviet Union might be able to compensate for lost SS20s by shorter-range missiles in Eastern Europe.

Secondly, British and French nuclear forces. Is the new Soviet proposal a constructive move—a stepping-stone away from the old idea of simply counting in the European forces in the US totals? Or does it in fact represent a tougher and more realistic intention of putting Britain and France on the spot? It is hard to tell.

The US will argue that it is in no position to agree to a freeze by Britain and France, since they are sovereign states, and will disclaim any possibility of breaking its agreement to sell Trident D5 missiles to Britain. But as the year wears on, the pressure on Paris and London could become much more intense.



A British Polaris missile submarine. Its credibility for deterrence depends on its invulnerability and invisibility; arms control depends on some degree of verifiability, which means visibility.

These two governments have long said that they will not join the nuclear arms control process until (a) there is a major reduction in the strategic arsenals of the superpowers and (b) they can be certain that there will be no increase in anti-missile defences by the superpowers. There is no chance that France or this British government will abandon either of these two conditions for the sake of an INF agreement. But it will be disagreeable for them, and very divisive for the alliance, if Moscow can depict them as the only obstacles to the first arms control agreement for seven years.

Since Mr Gorbachev understands the logic of the British and French positions perfectly well, he cannot seriously expect his demands to be met. The inference must be either that he is playing the INF game for a tantalising and divisive failure; or else that he is staking out a claim for the kind of contribution that he will require of Britain and France eventually.

Thirdly, even if the elimination of all Euro-missiles is not "de-coupling," it must shift western anxiety towards the substantial conventional imbalance in Europe. Here the signs are a bit more encouraging. After a dozen years of total stalemate in the Mutual and Balanced Force Reduction talks in Vienna, both sides are sounding more optimistic. In particular, the Russians appear to be talking more positively of the need for adequate verification methods.

A shift of the Soviet attitude towards the verification issue, if borne out in the course of negotiations, in this as in all other arms control negotiations (strategic nuclear, Euro-missile, chemical weapons, conventional forces and confidence-building measures), may prove crucial to the whole enterprise. The hawks in the Reagan Administration are making "effective verification" the keystone of their position, and the British Government, too, is likely to make much of this issue when it makes its reply to the Soviet proposals.

At first blush, heavy emphasis on verification seems entirely justified. American hawks claim the Soviet Union has been cheating on past arms control agreements, among other things by building missiles and radars forbidden by the Salt and ABM treaties. If the US is to sign new agreements, they say, it must be much more confident that the Russians will not cheat in future, especially if these are to be agreements on deep cuts: cheating on numbers is more threatening at low than at high levels of weaponry.

The reasoning seems plausible. But the hawks' demand for much more effective verification is really a pretext for their opposition to arms control, because they do not trust the Russians. If the US Administration lays too much emphasis on verification, the negotiations may be doomed to failure. Verification cannot bear all the weight of the arms control process because it cannot by itself erase the hawks' suspicions.

With modern technical means, some types of arms control agreements can be verified with a high degree of confidence: for example, counting large land-based missiles in fixed silos. A total ban on the testing of all new inter-continental missiles could also be adequately verified. Other weapons are inherently more difficult to count, such as sea-launched cruise missiles or mobile land-based missiles.

The real problem with verification, however, is not so much technical as political. Much satellite information is unavoidably incomplete or ambiguous, and its significance is not necessarily self-evident: the interpretation will depend very largely on the preconceptions of the interpreters. Previous administrations said the Russians were complying with the Salt treaties; on the same evidence, the Reagan Administration claims that they are not. An administration which is convinced that the Russians will do anything to cheat, and that any marginal ambiguity is presumptive evidence of a search for a militarily significant advantage, is not going to go very far down the road of arms control.

In short, verification in arms control is essentially a co-operative activity, which cannot stand on its own, and which makes sense only as part of a broader process of gradually building up some mutual trust. Naturally, after so many years of mutual suspicion, trust will not come with the wave of a wand. The significance of Mr Gorbachev's apparent openness on the verification question is not that more extensive verification will provide water-tight guarantees; but it may, together with the offer of a separate Euromissile deal, be a political acknowledgement of the overriding importance of the trust-factor.

History, their rhetoric and their record have taught us to expect the worst of the Russians, and the wariness of western governments has not yet been allayed by the ambiguity of Mr Gorbachev's proposals. Nevertheless, it is striking that some western diplomats do not rule out the possibility of a sea-change in relations with the Soviet Union; but it will not be brought about if we place on verification a burden greater than it can bear.

Lombard

Fairer approach to merger control

By Martin Dickson

HAS THE time come for the Government to streamline radically the cumbersome process by which the Monopolies Commission investigates *the merits* and *demerits* of takeovers?

The question is prompted by two controversial references to the commission which smack of inequity. Last Wednesday the Government referred the proposed merger between Imperial Group and United Biscuits, while giving a green light to the rival bid for Imperial from Hanson Trust. On Friday, in a similar case, the proposed merger between Distillers and Guinness was sent for investigation, even though a rival offer for Distillers from Argyll had been allowed to proceed.

The inequity arises not in the references themselves — both Guinness/Distillers and Imperial/UB raise clear competition questions — but in the length of time it takes the Monopolies Commission to reach a verdict. Its inquiries normally take six months, extendable to nine, and the Government then requires several weeks to consider the document before giving its final verdict.

Shareholders suffer, since they cannot weigh up the merits of two competing bids side by side. Given the pressure on fund managers for short-term performance, few will turn down a bird in the hand for two stuck in the commission thicket.

National interests may also suffer, since the present system is biased *in favour* of bids by diversified industrial conglomerates at the expense of mergers involving companies in similar areas. The latter might lead to an undesirable degree of concentration but, equally, they could produce benefits for the nation through economies of scale and greater international muscle.

The ideal solution to this problem would be to speed up the Government's investigative process to the point where the competing bids could be considered side by side. Is this feasible?

A takeover battle can last up to 88 days. Companies are allowed 28 days from the initial announcement of a bid in which to issue an offer document and 60 days from the despatch of that document in which to woo shareholders. If a rival bidder enters the frame, the clock is put back to day one. With a little bit of political willpower it ought to be possible to devise an investigative framework to fit within this timetable.

The first step on the investigative road is for the Office of Fair Trading to recommend to the Government whether a particular bid should be referred. It aims to do this by the first closing date of the offer—up to 49 days after an initial announcement — though recently some cases, notably Imperial, have been taking longer. This timetable might well be compressed if the OFT were better staffed. At present there are a mere three case officers to consider a wave of bids of increasing complexity.

The Monopolies Commission offers much greater opportunities for time-saving, but there are two obstacles: the statutory framework of its inquiries, and the *composition of its investigative teams.*

The Fair Trading Act requires the commission to consider not just competition but the impact of a merger on employment, the distribution of industry, "the use of new techniques," and any other aspect of the public interest which it thinks relevant.

This remarkably broad remit goes a long way to explaining the length of inquiries. Many factories may have to be visited, many witnesses called. Another factor is the composition of the inquiry teams, most of whom are part-time commission members with many other outside commitments to fulfil. They are, however, a necessary part of the team since members of the public are deemed good judges of "the public interest."

One radical solution to the time problem would be to change the legislative framework governing the commission so that references to it were on grounds of competition alone.

This would also obviate the need to include such a broad spread of part-time "public interest" members on commission inquiries. With a smaller, more professional staff, focusing clearly on competition policy, the commission would report more much more rapidly.

Letters to the Editor

Competition dilemma

From Mr R. Pilgrim

Sir,—The referral of the agreed merger of Imperial Group and United Biscuits, leaving the way open for Hanson Trust to proceed with its bid, illuminates a dilemma in the Government's competition policy. At a time when companies, both here and in the US, are rightly seeking to consolidate their activities in the areas of business in which they are most familiar, Government policy has the effect of favouring the business with no experience in the industry.

Admittedly, the interests of the consumers and other groups requires a consideration of the competition aspects of any takeover or merger. However in the longer term, the efficiency of the acquired company under its new management must also affect consumers, employees and suppliers.

It is time to look for a considerable shortening of the investigation period by the Monopolies and Mergers Commission from its present six months, to say, one month. In the Imperial case this would have allowed both deals to be referred for consideration. After all, the investigations and decisions of management which result in an acquisition often have to be made in a short period.

Roger Pilgrim.
95 Claremont Road, N6.

Patents and innovation

From Mr R Burnett-Hall

Sir,—Your legal correspondent's article (February 6 1986) makes several valuable points on the role of the Patent Office as a supplier of technological information and assistance. From his comments on patent litigation however, and possible additional protection for innovation, he clearly fails to appreciate what is involved.

Dr Hermann is far from being the first to wish for patent protection to be always certain and invulnerable to attack, but anyone familiar with the patent system will know that this could only be so at the price of great injustice and harm to the public as a whole.

The patent system necessarily involves a balancing of conflicting interest; getting that balance right is a matter of great public importance. While the system encourages innovation and the dissemination of new technology, patents inherently *also* prevent or at least discourage competition with the patentee in the field covered by the patent claims. Dr Hermann refers to the innovative entrepreneur who succeeds in developing new products and services—for every one of them who may wish to have and be entitled to valid patent protection, there are I have no doubt many other enterprising people who wish to develop products or services but who are inhibited or prevented from doing so by the existence of a patent of questionable validity or relevance. The system certainly should operate to stimulate as much as possible the development and commercial exploitation of new technology, but it is of equal importance that it should not be used to stifle legitimate competition.

Setting up a system for registered inventions or utility models might well help to encourage innovation, but it would be naive not to recognise that this would inevitably also create greater discouragement to those seeking to develop businesses in useful and but possibly non-inventive products and processes. The small and medium-size firms would not be the only ones to make use of further statutory protection; if it had any practical effect large firms would doubtless be at least equally alert to use it against the small firm as vice versa.

Notwithstanding some apparent judicial lapses from time to time, English law has rightly long demanded that if a person seeks to carve out a monopoly for himself in which all unlicensed competition is to be prevented, the burden is on him to define with the maximum practicable clarity the scope of that monopoly, so that all others may know whether it can properly be asserted against any activities that they may have in mind. Litigation on questions of obviousness and infringement is far more often *concerned with the construction* of the words of the patent claims and whether they cover obvious matters or the alleged infringement, than with whether the patentee's innovation contained an inventive feature that could have been validly claimed. Even questions of obviousness entail an underlying policy question of what degree of innovation over what has gone before is sufficient to justify a 20 year monopoly.

Though the context is technical, the issues are legal, and it is precisely to decide such issues that we have a High Court. It is wholly inappropriate that they should automatically be passed to a technical tribunal, in the Patent Office that does not necessarily contain any lawyers, and whose decision could determine the commercial life or death of a person or firm. As a solicitor I hold no brief at all for the Bar, but the implication in the article that resistance to such a proposal comes only from the vocal Patent Bar defending its interests is unworthy of your paper.

I am as concerned as anyone with the injustices that are undoubtedly caused by the costs of patent litigation favouring those with deep pockets. There is certainly a respectable case for having the Patent Office hear more cases by agreement, or even compulsorily where the issues at stake are not of major consequence. The answer however is not to remove all patent disputes to an inappropriate forum but to ensure that substantial and effective reforms are made in High Court procedure, especially by way of greater particularity of pleadings. The Commercial Court Committee has recently shown the way in a report recognising the value of the Commercial Court to an international clientele, so providing substantial foreign earnings for the UK. The Patents Court, which plays essentially the same role in a related context, should lose no time in following.

R. H. Burnett-Hall.
1 Aldwych, WC2.

Shareholders' rights

From the chairman, Baring International Investment Management

Sir,—I am writing in support *of Jim Findlay's plea* to preserve the principle of pre-emptive rights (February 12).

Mr Findlay sets out the various arguments with admirable clarity. To my mind, there is one overriding consideration which is that the *present* shareholders own the company. This is not a legal fiction but the reality. Indeed, management is employed by them to look after their best interest.

While the system of pre-emptive rights may be inconvenient to ambitious managements or to aggressive young investment bankers, that is no reason to abandon it — indeed, the contrary would be the better presumption.

The beauty of our system of "rights," by way of renouncable allotment letter, is that existing shareholders can choose either to exercise their right or sell it to others at a true market value. Any other course is an abuse. While the extent of the abuse can be diminished, it still remains an abuse.

J. A. Morrell.
9 Bishopsgate, EC2.

Social security reforms

From Mr P. Ashton

Sir, — Samuel Brittan (February 10) seems to be under the impression that when the Social Security reforms are in being, *fewer families* receiving in-work means-tested benefits will experience a significant drop in their marginal rate of "tax" following an increase in tax thresholds than they would under the present arrangements. In this he is mistaken: although the numbers involved are not large, the reverse will, in fact, be the case.

Mr Brittan points out that under the new benefit system a family in receipt of both family credit and housing benefit will see their implicit marginal tax rate fall only from 96 per cent to 94 per cent should an increase in personal tax allowances lift them out of the tax net, whereas under the existing benefit scheme the fall would be much greater (from 103.5 per cent to 73.5 per cent). This is true, of course, but the fact is that there are very few families with dependent children earning little above the personal tax allowance level (£66.44 pw) who would be taken out of the tax net.

For many more people, both single and married (with and without children) in work and retired, an increase in personal tax allowances (or an equivalent basic rate cut) will raise their net incomes above the benefit entitlement levels and result in a big drop in their marginal tax rate. A few might see their marginal rate drop from 96 per cent to 39 per cent, others from 96 per cent to 82 per cent, and for those in receipt of housing benefit only from 88 per cent to 39 per cent.

Of course, the total cash gain to benefit recipients from a tax cut will be much smaller than under the present system, and it will be "regressive." But this is no bad thing, given that although the present plateau of net incomes over a wide range of gross earnings will be slightly improved under the reforms, differentials will still be in need of widening.

Paul Ashton.
University of Liverpool,
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Myrtle St, Liverpool.

FINANCIAL TIMES

Monday February 17 1986

Terry Byland on Wall Street

Dilemma of oil benefits

THE WALL STREET stock market continued to surge out of sight last week, impelled by tumbling yields in the bond market as much as by any more general economic factors. Occasional pauses for consolidation have quickly sparked off fresh buying bouts, and the brokerage community remains bullish – except for a few doubts on corporate profits.

Equity market analysts focus their attention on the likely effects of the rapid slide in world oil prices, with the outlook for the US economy, the dollar, the federal budget deficit and the policies of the Federal Reserve following close behind.

As Mr Alan Sinai of Shearson Lehman Brothers puts it: "The benefits of lower oil prices must be judged as overwhelmingly positive for the US and world economies – reducing inflation, stimulating real economic growth, acting as a force for lower interest rates."

Shearson concedes that there is a bearish scenario. This it outlines in terms of a $15 a barrel or less world oil price, endangering the ability of Mexico and others to service debt, and bringing recessionary pressures in the UK, Norway, Mexico, Nigeria and Venezuela, and also in some of the oil states of the US.

This in turn, it comments, could mean trouble for many small US banks, and some big ones, too, and could bring a flight to cash and precious metals and eventually a world recession.

But in the real world of investment, Shearson is only prepared to assign a 5 per cent probability to the disaster scenario. "The winners (of the oil price realignment) will act to prevent the sort of catastrophe that could undo the gains," it asserts. There is a danger of expecting too much too soon from the drop in oil prices. The US economy is less tightly linked to energy, and particularly oil prices, than in 1973. Energy conservation in industry as well as the high cost of oil over the past decade has kept demand down.

Oil consumption per dollar of GNP has plunged by about a third since 1974, according to Mr Richard Berner, vice president of Salomon Brothers.

Decontrol of domestic oil prices during the 1970s means that today's drop in crude prices will fall on the domestic producers and their lenders and stockholders. On aggregate, therefore, corporate profits will be boosted only slightly by falling oil prices.

Corporate profits have been the one side of the stock market equation so far distinctly unmoved by all the excitement. In assessing President Ronald Reagan's 1987 budget proposals, Salomon Brothers sticks resolutely to forecasts for corporate profitability that are largely unchanged from those accepted on Wall Street six months and more ago. For this year Salomon expects profits to rise by 15 per cent, at least 8 per cent less than the Administration expects, but in broad agreement with Merrill Lynch and many other investment houses.

Looking further ahead, Salomon sees corporate profits expanding by only a further 9 per cent or so in 1987. This seems a trifle uncomfortable for a stock market currently soaring on expectations that the real benefits from low inflation, low interest rates and low oil prices will appear in the corporate profit and loss accounts in 1987. This school has already written off as unimportant not only the lacklustre profits already disclosed for the 1985 final quarter but also the prospective figures for the first half of this year.

If Wall Street is still sounding remarkably unexcited by the outlook for corporate profits, then it may be timely to look at some other straws in the wind. Yields on high risk or junk bonds are soaring, taking the spread against federal bond yields to record levels, according to the latest Salomon junk bond index. Historically, junk debt has tended to trade like equity because investors realise that security is the prime risk. Why, then, should junk bond prices be tumbling just now when the stock market seems to be signalling bright prospects all round?

One reason is that too much "junk" has been fostered on to the market over the past 12 months as the takeover specialists joined the act. Leveraged buyouts, as well as predatory battles, have left too many companies with rickety loan structures. Yields of up to 18 per cent on junk bonds, now measured against under 9 per cent on long dated federals, may be telling us that not every company will be bailed out of its follies by the invocation of lower oil prices.

It could still be an upward slog for profits this year, and today's stock prices may be expecting more than the corporate sector has to offer in the near term.

French bomb Chad military base

BY DAVID MARSH IN PARIS

FRANCE yesterday delivered a strong military response to renewed Libyan incursions in Chad, by bombing a Libyan-built air base in the north of the country and sending in 200 troops to N'Djamena, the capital.

The show of force was intended to cut off Libyan-backed rebels from logistical air support and to underline French determination to support the N'Djamena Government of President Hissene Habre.

Mr Paul Quiles, the French Defence Minister, giving details of yesterday morning's air raid against the Ouadi Doum air strip, said the base had been used as the springboard for last week's rebel attacks against government positions in the middle of the civil war-torn country.

France's swift military move is intended as a warning to Col Muammer Gadaffi, the Libyan leader, thet the current French election campaign will not deter Paris from taking decisive action in Chad.

By authorising yesterday's raid by Jaguar fighter-bombers, President Francois Mitterrand – who was heavily criticised for a fruitless peace-keeping meeting with Col Gadaffi in November 1984 – may hope to turn the show of firmness to the Socialist party's electoral advantage.

The despatch of 200 commandos marks the return of combat troops to Chad for the first time since 3,000 French soldiers pulled out of the country in autumn 1984. French military instructors and technicans, however, have kept up a presence to supervise training and supply of weapons from Paris to the N'Djamena government.

Yesterday's deployment of the French air force, from its base in neighbouring Central African Republic, seems to indicate a greater readiness by Paris to use air power than during France's previous period of intervention in Chad between August 1983 and November 1984.

Mr Quiles said the Ouadi Doum base, built last year, had a 3,800 m-long air strip capable of receiving all types of military aircraft, which had come into operation only a few months ago. Mr Quiles said the raid was necessary to help Chad resist "foreign intervention" which had resulted in last week's attacks across the 16th parallel in the middle of the country. This was set down by France in 1983 as a de facto demarcation line dividing the government held south from the north of the country, in the hands of Libyan-supported rebels.

France is responding to calls for military assistance from President Hissene Habre in line with article 51 of the United Nations charter, French officials said. This allows countries to take defensive measures with the aid of other forces if the target of armed aggression. Mr Roland Dumas, the French Foreign Minister, informed Mr Javier Perez de Cuellar, the UN secretary general, of yesterday's action.

Refuge eludes Duvalier

By David March in Paris

MR JEAN-CLAUDE DUVALIER, the ex-dictator of Haiti, has started his second week of refuge in France. To the mounting embarrassment of the Paris Government no country has yet come forward to offer him permanent asylum.

Yesterday saw considerable confusion at Talloires, near the Swiss border, where Mr Duvalier and his entourage have been lodged since February 7 in a luxury hotel.

The ex-president was reported to be ready to leave for exile in the US yesterday morning. But the US State Department denied that Mr Duvalier "was on the point of leaving for the US, pointing out that he did not even have a visa.

Mr Duvalier's lawyer later said that negotiations to try to speed the ex-dictator on to refuge outside France were "at a standstill" following the refusal of several African countries to accept him.

The Government's mounting embarrassment was underlined by renewed remarks at the weekend by Mr Laurent Fabius, the Prime Minister, who said he believed Mr Duvalier's "provisional" stay in France would quickly be over. However, the Opposition is still on the whole refusing to try to make political capital out of the affair.

● The US yesterday declared Mr Duvalier "an undesirable alien" and under no circumstances would he be allowed into the country, Reuter reports from Paris. US embassy officials in Paris claim that he could pose a serious security problem because of the large number of Haitian exiles in the US.

Portugal votes again in close contest

BY DIANA SMITH AND DAVID WHITE IN LISBON

PORTUGAL went to the polls yesterday for the fourteenth time in less than 12 years to decide a closely-fought run-off contest for the presidency between Professor Diogo Freitas do Amaral, the right wing favourite, and Dr Mario Soares, the Socialist former Prime Minister.

The eve-of-poll calm was broken by the terrorist killing of the head of the country's prison services, Mr Gaspar Castelo Branco, who was shot at close range outside his Lisbon home.

Prof Freitas do Amaral

Responsibility was claimed by the April 25 Popular Forces, a far-left group, several of whose alleged members are currently on trial. The victim was responsible for tightening up on prison security after 11 alleged members of the group escaped from jail last September.

Yesterday's voting, however, took place in the usual disciplined manner, after a lively and enthusiastic campaign for what has turned out to be Portugal's most gripping election for several years.

Voting picked up after an initial low turnout in rainy weather. Low participation among the 7.62m voters would be expected to favour Prof Freitas do Amaral, who polled over 46 per cent in the first round three weeks ago, against barely 25 per cent for Dr Soares.

The contest provided the most straightforward confrontation between right and left since the 1974 revolution, with rival parties of the left joining forces for the occasion behind Dr Soares. Prof Freitas do Amaral enjoys the strong support of Prime Minister Anibal Cavaco Silva, head of the minority Social Democrat Government that emerged from general elections last October.

The two sides were locked in battle during the 10 days of campaigning for the second round, which ended on Friday night with Prof Freitas do Amaral's supporters, decked in US-style boater hats and armed with fireworks, staging a mass rally in Lisbon's central Avenida da Liberdade.

The man who succeeds the outgoing president, General Antonio Ramalho Eanes, will be Portugal's first civilian head of state for 60 years. The transition also marks and end to the protagonism in political life of the armed forces which ousted Portugal's dictatorship in 1974.

While be does not have the executive responsibilities of a French President, the Portuguese head of state has quite extensive powers, including that of dissolving the parliament once he has been six months in office. Both candidates promised, however, that they would not immediately plunge the country into yet another election.

Violence feared at Amritsar

By K. K. Sharma in Anandpur Sahib

THE STAGE was set yesterday for what could be a major confrontation in Punjab between Sikh extremists and the moderate ruling Akali party when a "Sarbat Khalsa" supreme religious congregation authorised the Sikhs' temple management committee to regain control of the Golden Temple in Amritsar.

The Golden Temple, the holiest shrine of the Sikhs, was captured by extremists on January 26 when, in a "Sarbat Khalsa" sponsored by them, they expelled the Sikh high priests and called for fresh elections for a new temple committee.

The moderates decided to hold a rival "Sarbat Khalsa" to annul the extremists' decisions which amounted to a religious and political coup, but failed to hold this at the Golden Temple because of the threat of violence. Instead the religious congregation was held yesterday at Anandpur Sahib, another historic temple, more than 150 miles from Amritsar.

There, hundreds of thousands of Sikhs answered the call by the moderates to attend the rival meeting, which directed the temple committee and the ruling Akali Party in Punjab to oust the extremists from the Golden Temple.

How this will be achieved remains to be seen, but there are fears of a violent confrontation. The extremists are strongly entrenched and it is thought that they may be armed.

The last time that the extremists gained control of the temple, in June 1984, the late Prime Minister, Indira Gandhi, ordered the Indian army to storm it. Hundreds of Sikhs died as a result.

THE LEX COLUMN

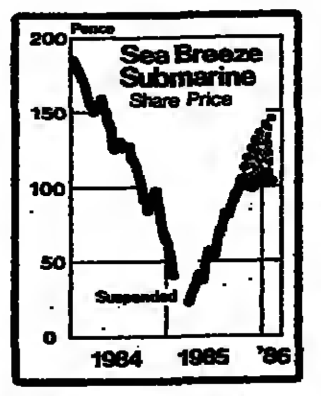
The prospect of Whitby

Only the most seasoned gambler would lay odds on the outcome of today's shareholders' meeting at Sea Breeze Submarine. Having failed to reach the necessary 75 per cent majority at last month's shareholders' meeting in Whitby, the revised reconstruction scheme involving the Italo-Soviet proposal is still by no means assured of success. The commitment by the sole small shareholder to travel down to Wembley is as much to be welcomed as the relative calm on the political front since the swearing-in of the Provisional Government under Lord Stockton. For whatever the political merits or perils of the rival Italo-Soviet and Italo-Franco-German reconstruction plans, Sea Breeze remains a listed company with all the Yellow Book obligations that entails. It is for Sea Breeze's shareholders, or rather Mrs Evelyn Treacher of Whitby, to decide its future.

Decline

She will need no reminding of the stages of Sea Breeze's corporate decline. In retrospect, the former management's attempt to bridge a gap in military orders through a vigorous entry into the civilian submarine market was doomed to failure; and the cancellation of the Central African Republic's order for the SB-12 – never too convincing from an entirely land-locked customer – has confirmed that there is no present market for such vessels. Inventory valued at the last balance sheet at over £1.1bn is now to all intents worthless. But those ex-ministers who now champion a European solution for Sea Breeze were singularly reluctant to consider the board's desperate pleas for assistance last summer: Mr Heseltine's out-of-hand dismissal of the Sea Breeze tender for a flexible underwater Channel link squares oddly with his position today.

Sir James Chutney and his merchant bank advisers rightly refused to be mesmerised by the requirement for new equity, however immediate and urgent. They advertised for an international partner who could provide orders for Sea Breeze until the new SB-206 utility submarine enters serial production in 2010. Sverdlovsk Heavy Industries must have been at the top of any serious list; and its subsequent joint venture with Fiat goes some way to meeting the board's preference for a private sector dimension.



This is quite absent in the European consortium.

Indeed, many of the arguments put forward by the champions of the European scheme now appear irrelevant. The very notion that Sea Breeze would degenerate into a metal-bashing subsidiary of SEL is absurd. The reverse is likely to be the case; and the offer to site submarine pens at Whitby for the Murmansk fleet quells any doubts about the depth of the sub-contracting work that has been pledged. The fact that the Soviet Union is not a member of Nato's military structure is quite beside the point; nor is France, for that matter. As for the distaste occasioned by Fiat's Libyan shareholding, this would seem to be outweighed by the PFLP stake – said to be a trade investment – in Bellafigura, the most voluble of the European partners.

As adviser to the consortium, the Merchant Bank of Sark has complained bitterly at its short shrift from the Sea Breeze board. Indeed, it is hard to imagine the creditor banks ever having agreed to convert some £400m of overdraft facilities into irredeemable unsecured non-voting preference shares without the pressure from a competitive plan. None the less, the members of the consortium seem far more eager to forestall a Soviet foothold in Western Europe than secure Sea Breeze's future for its shareholders: the directors of Matelot and Das Boot Industrie have all but said as much.

However, Lord Stockton's latest letter confirms that the Ministry of Defence will consider Sverdlovsk's Black Dog all-weather submarine on all fours with European suppliers for the next generation of cast-iron craft. The role of GEC and British Aerospace, as indubitably UK members of the consortium, remains as unclear as at the time when crossed wires between Stanhope Gate and Downing Street helped precipitate Mrs Thatcher's departure.

Thanks to the intervention of Captain Birdseye, the consortium and its supporters were able to foil the original reconstruction plan presented by the board at Whitby. Since then, a number of mystery buyers have entered the field, winnowing out all the insitutional holdings at large off-market premiums (as the shaded area of the chart indicates). One can make what one likes of Lord Hanson's claim that his 17 per cent stake is needed to maintain access to Sea Breeze technology for his Hansub subsidiary; but this is surely an industrial irrelevance after the disposal of the Hanson prawn fleet to BTR.

Yet in such a false market, with shares changing hands at prices utterly remote from any fundamental investment value, it is not impossible that Captain Birdseye was led to believe that a dukedom was his for the asking. After all, the Bank of Sark went so far as to tender for the small shareholding at an 850 per cent premium in the full knowledge that Mrs Treacher wished to keep her options open and had not been tempted by the offer of a Sea Breeze directorship.

Until the stock exchange has completed its investigation, the exact status of the various nominee holdings in Sea Breeze must remain obscure. At the very least, institutions that hold shares through fiduciary accounts in Prague and Warsaw are unlikely to be the most rabid opponents of Anglo-Soviet defence co-operation; Rowe & Pitman's arguments about the increasingly global nature of financial markets are pretty thin stuff. The decision to disenfranchise all but Mrs Treacher is surely the correct course if the rules on Class Four transactions; or the exchange's own repute as an SRO, are to have any weight.

The exchange's decision does leave Sir James' choice of venue looking a shade opulent for the meeting's needs; while the hiring of 30 poll scrutineers now seems a highly questionable use of Sea Breeze cash. But they will have been cheap at the price if the meeting does produce a decision, one way or the other. At long last, Sea Breeze can return to its proper business, which is making submarines.

Brent oil daisy chain wilts under pressure

Continued from Page 1

that they pay the minimum to the UK tax man. In the UK, there is a marginal tax rate of 80 per cent on oil production profits, whereas in a downstream business only corporation tax is payable.

So the producers have a big interest in demonstrating the lowest possible crude sale and buy-back price to the oil taxation office so as to shift as much profit as possible into their refining operations. This business, known as tax spinning, is claimed by some traders to account for much of the growth of the Brent forward market.

Mr Colin Darracott, formerly manager of supply co-ordination for the British National Oil Corporation, says: "I've seen major North Sea oil producers go into the market and chase the price down. This business of tax spinning has contributed significantly to the rate at which North Sea oil prices have fallen," and so presumably to the built-in losses which have led to the collapse of the Brent forward market.

In earlier smaller examples of daisy chain collapses, the majors have stepped in and bailed out the unfortunates. Not this time. "It's someone else's problem," says one major oil company trading chief and this attitude appears endemic among the majors.

In the past week, even before Wednesday's disintegration, the most active participants such as BP and Shell stepped back from the market starving it of the liquidity it needs for smooth operation, but in the wake of the collapse it is difficult to see the large companies wanting to re-enter until the debris has been removed from the battlefield.

On a market based on trust in which all the participants must perform for the contract to work there can be no functioning until all the participants are known to be solvent.

Already oil companies are believed to have banned their staff from attending a party thrown in IP week by one of the biggest trading companies. Mr Darracott says: "This used to be a gentleman's market. It's got bigger and nastier. The whole thing has gone sour."

But March is brewing up to make even the storms of February look mild. A total of 300 Brent deals for March delivery have been reported at an average price of $21.15. The current March price is about $16.75. That looks like profits of $800m for the short sellers of Brent – and an equal motive for losers to renege on their deals. One trader says: "There will be so much blood on the floor by the end of March. It stuns me. This is only the beginning."

US urges talks in Philippines

Continued from Page 1

himself to say that the poll had been "marred by widespread fraud and violence perpetrated largely by the ruling party."

In a statement issued from his California ranch, Mr Reagan said that the abuses were "so extreme that the election's credibility has been called into question both within the Philippines and the United States." He called on both sides to work together for reforms and urged Mrs Aquino and her supporters to avoid violence

Mr Marcos warned that if US aid were nithdrawn he would have to renegotiate the basing agreement with the US, due to expire in 1991, which sets the terms for the operation of the two strategic US air and naval bases in the Philippines. He might have to renegotiate the pact anyway, he added, claiming that the US was $70m behind in its compensation payments for the bases.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	13	55	Dubrovnik	C	10	50	Malta	F	13	55	Rhodes	—	—	—
Algiers	C	28	88	Edinburgh	Sl	2	36	Manchester	Sn	-1	30	Rio de J'o	C	35	95
Amsterdam	C	-3	37	Faro	C	16	61	Manila	S	31	88	Rome	S	12	54
Athens	C	12	54	Florence	S	8	46	Melbourne	S	26	79	Salzburg	C	0	32
Bahrain	S	20	68	Frankfurt	S	-1	30	Mexico City	S	23	73	San Francisco	S	17	63
Bangkok	S	32	90	Funchal	S	15	59	Miami	C	29	84	Seoul	S	5	41
Barcelona	F	14	57	Geneva	C	2	36	Milan	S	3	37	Singapore	C	31	88
Beirut	C	13	55	Gibraltar	S	16	61	Montreal	C	-5	23	Stockholm	S	-6	21
Belfast	C	2	36	Glasgow	C	3	37	Moscow	S	-7	19	Strasbourg	C	-2	28
Belgrade	Sn	-2	28	Guernsey	C	5	41	Munich	S	-4	25	Sydney	S	24	75
Berlin	C	-4	25	Helsinki	C	-4	25	Nairobi	S	29	84	Taipei	C	18	64
Biarritz	S	17	63	H. Kong	R	13	55	Naples	F	8	46	Tangier	—	—	—
Bombay	S	27	81	Innsbruck	R	2	36	Nassau	F	18	64	Tel Aviv	C	19	66
Bordeaux	S	12	54	Inverness	C	2	36	New Delhi	S	18	64	Tenerife	S	21	70
Brussels	S	-1	30	Islamabad	S	19	66	New York	R	1	34	Tokyo	S	4	39
Budapest	Sn	0	32	Istanbul	F	9	48	Nice	S	13	55	Toronto	C	-1	30
B. Aires	R	27	81	Jakarta	S	31	88	Nicosia	C	17	63	Tunis	C	15	59
Cairo	S	21	70	Jersey	C	5	41	Oporto	C	14	57	Valencia	C	18	64
Cape Town	S	23	73	Jo'burg	F	23	73	Oslo	S	-7	19	Venice	S	5	41
Caracas	—	—	—	Lisbon	S	27	81	Paris	F	3	37	Vienna	C	-1	30
Casablanca	—	—	—	Locarno	R	13	55	Peking	S	2	36	Warsaw	F	-4	25
Chicago	S	-8	18	London	C	2	36	Prague	S	1	34	Washington	—	—	—
Cologne	S	1	34	Los Angeles	S	15	59	Reykjavik	F	4	39	Zurich	S	0	32
Copenhagen	S	0	32	Luxembourg	S	-3	27								
Corfu	R	11	52	Madrid	C	12	54								
Dallas	—	—	—	Majorca	F	16	61								
Dublin	C	2	36	Malaga	F	19	66								

Readings at mid-day yesterday:
C-Cloudy D-Drizzle F-Fair H-Hail Fg-Fog R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Voest Alpine's losses soar

Continued from Page 1

will take charge of the metallurgical plants division. A board member responsible for the finished products division has yet to be appointed but Mr Fachmann Volkmar, another West German executive is tipped to be offered the job, officials say.

The announcement of the revised deficit figure was described as "shocking" by Dr Alois Mock, the opposition People's Party leader, who warned that the new losses would impose a further burden on the Austrian tax payer. The crisis at Voest demonstrated that the industrial policies of the socialist-led coalition Government were bankrupt, he said.

Brussels pursues high-tech finance

Continued from Page 1

Eurotech Insur would operate a guarantee scheme to reimburse Eurotech Capital with 50 per cent of any losses it might incur on its investments.

The main income of Eurotech Insur would come from premiums paid by companies in which the investment company had a stake. The rate would be 2 per cent of the Eurotech Capital investment each year.

The Commission'a ambitions do not stop here. Officials see Eurotech Capital as a prototype for other risk capital ventures, a move to place the provision of risk capital on a Community basis rather than keep it in national preserves.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday February 17 1986

Sumitomo Trust opts for big CD launch

SUMITOMO Trust & Banking, Japan's second biggest trust bank, has launched a $750m certificate of deposit (CD) programme through Salomon Brothers, one of the largest such programmes yet seen, writes Peter Montagnon in London.

The deal reflects the rising popularity of CD programmes which have been growing quietly in recent months alongside the heavily publicised development of Euro-commercial paper. Under the programme the bank will issue short-term CDs through a group of dealers comprising Salomon itself, Bankers Trust International and Shearson Lehman Brothers International.

In most practical respects CDs are similar to commercial paper except that the borrower happens to be a bank. However, a major difference is that the volume of CDs outstanding is much higher, and the market is therefore highly liquid.

The Basle-based Bank for International Settlements reckons that CDs provide $98bn to funding for the international banking system, whereas only about $15bn in Euronotes and Euro-commercial paper have actually been issued.

Most banks habitually issue CDs from their own money-market trading desks, but now many have begun to adopt the Euro-commercial paper technique and appoint dealers under a specific programme.

In Sumitomo Trust's case this should make its sales of CDs more efficient and broaden the range of investors who buy them. One hope is that investor perception of the paper will improve as a result, allowing the bank's CDs to be sold on a yield level equal to the top-rated Japanese banks.

The liquidity of the CD market is one of its attractions to investors. Of course, a drawback, from which the Euro-commercial paper market has been able to profit, is the relative decline in the credit standing of commercial banks because of the developing country debt crisis. As part of their flight to quality, investors in short-term securities are these days always on the look-out for leading corporate names.

On Friday night Salomon was poised to satisfy this need as well. It was preparing to launch a $500m, five-year revolving credit for IBM Credit of the US. The credit, on which terms will be revealed this week, will back up issues of Euro-commercial paper. Salomon, Morgan Guaranty, Bankers Trust, Credit Suisse First Boston and Swiss Bank Corporation International will be dealers. All of them will participate in the back-up credit, which is rare for investment banks such as Salomon Brothers but reflects the very high credit standing of the borrower.

Indonesia has meanwhile moved to stock up on its foreign borrowings following the collapse of oil prices. It has launched a Y100bn package co-ordinated by Bank of Tokyo. The deal includes a Y40bn Euroyen tranche carrying interest at a margin of ⅜ per cent while the balance is in domestic currency carrying a fixed rate of interest 0.1 per cent above the long-term prime rate, currently 7.2 per cent.

Elsewhere, Belgium's $500m credit has met a reasonably positive response in syndication despite its overall very fine terms which include a margin of just ¹⁄₁₆ per cent over Libor for the first four years. Major Belgian banks stayed away for political reasons after the mandate went exclusively to a US bank, Morgan Guaranty, but it now appears that several leading Japanese banks have also baulked at the terms.

One reason for this is the absolute low level of the margins, as well as worries about funding since the credit is due to be drawn in D-Marks and Swiss francs. These are harder markets for the Japanese banks to operate in than the Eurodollar market and low margins which might be acceptable on a dollar deal are too much to swallow on a multicurrency operation such as this.

Some Japanese banks are also worried that they could face funding problems in Belgian francs if they irritated big Belgian banks by entering this deal after the latter declined it.

INTERNATIONAL BONDS

New York trend fails to take off in Europe

CHEWING GUM, the television soap opera Dallas and automatic dishwashers are all American imports that have found favour in Europe, writes Maggie Urry in London.

But some trends do not travel so well. One that did not succeed in Europe last week was a strongly rising bond market. Eurodollar bonds lagged behind New York badly and spreads widened again, especially for corporate names.

Any corporate which can easily tap the domestic US market would probably prefer to go there now. For instance, a Philip Morris 10-year Eurobond is trading at a yield of 95 basis points over US Treasury bonds while a similar domestic issue trades at 60 over.

Investors are worried about the weakening dollar and face the dilemma that, if US interest rates ease, the currency could fall further, but for the currency to strengthen interest rates may have to rise. Either way they lose.

One exception to the rule seems to be Japanese investors, who continue to buy dollar bonds. The rumour that the Ministry of Finance is about to allow insurance companies to increase their holdings of foreign bonds above the 10 per cent limit is circulating again. The hope is that the ministry's previous objections to lifting the limit may have vanished now that the yen has neared 180 to the dollar. If the currency settles around that level, the story goes, the 10 per cent ceiling will be lifted to 20 or 25 per cent.

There is some continental European demand for paper, and issues which do appeal to investors can meet surprisingly strong buying. Top-quality names with well-priced issues are what investors like to buy, and such a deal caused a fierce row in the market last week.

An issue for Colgate-Palmolive was sure to be difficult to price. The company's debt is not rated and would perhaps deserve only a single A. Nor is it a frequent borrower. However, the name is so well-known it could be likened to a triple A. Credit Suisse First Boston won the mandate, set the price and called co-lead and co-managers, who came in and started selling bonds.

It turned out that demand was much greater than expected and, with a deal of only $100m, paper was going fast. Nn doubt the borrower could see that it was paying over the odds for the money, and the lead manager took the highly unusual step of increasing the issue price, from 100¼ to 100½.

That move caused a storm of protest, leaving other banks in the deal to a difficult position. They could drop out, but thet would cause losses and might upset their relationship with the borrower.

One banker said: "It's like doing a trade and then coming back later and saying, 'Oops, I didn't mean that.' We tape all our calls end we taped this one." The subject is not covered by any of the recommendations of the International Primary Market Association. Tempers have been raised, however, and the subject may be brought up at the next IPMA meeting.

Even so, the bonds were trading above the final issue price on Friday afternoon, and banks in the deal should all have made good profits.

Other US imports also failed to catch on in Europe. Twice last week lead managers launched Eurobond deals with structures that, they said, "work well in New York" but did not immediately catch the imagination of investors this side of the Atlantic.

The first was for Gannett, a media company, which is hardly known over here. Its issue, a "step-up put" bond, asks investors to take a lower initial coupon in return fnr an option to extend the life of the bond on a higher coupon. In effect, holders are paying for an option on interest rates four years out with only one exercise date. Traders argue that Eurobond investors would prefer the package to come as a full coupon bond with a warrant, thus securitising the option. In the end the bonds may find their way back to the US.

The second idea was an upside-down floater. A standard floater's return moves up and down with interest rates giving investors a margin over a reference rate. This one does the opposite – when interest rates go down, the coupon goes up.

Some Euro-bankers had been working on the notion for some time, and again it had already been launched successfully in the US. Merrill Lynch brought it to Europe for Christiania Bank, which investors recall as one of the issuers of a "mini-max" floater a year ago. That fashion proved short-lived.

The coupon is fixed by subtracting London interbank offered rate (Libor) from 17¾ per cent. The first coupon is fixed at 9 per cent which gives investors a spread over Libor of about a point, way above that from other floaters. If Libor goes down, the coupon rises, and if rates stay the same or fall over the five year life, holders will be richly rewarded.

Many think that rates are now near their bottom and are not prepared to take the risk of the coupon falling if Libor rises. If Libor goes to 17¾ per cent, the coupon will fall to zero. One comfort is that it cannot get worse than that – investors will not have to pay the borrower if Libor rises further still.

Deal of the week, though, was the D-Mark fnur-trancha zero-coupon issue for the West German Post Office. That structure, based nn the US Treasury stripped bonds idea, is one that does appeal to European investors. All four were trading above issue price nn Friday. Also successful, in an otherwise quiet continental market, was Deutsche Bank's issne with equity warrants which traded around 130 compared with the 120 issue price.

Good demand met the first sterling issue since early December, and the EIB's Ecu issue was increased nn Friday when lead-manager Banque Paribas found buying interest. The response to the first Japanese zero-coupon Swiss franc issue was good. Settsu Europe, the borrower, gained a guarantee from AAA-rated Industrial Bank of Japan for the deal.

EUROMARKET TURNOVER
Turnover ($m)

Primary Market	Straights	Conv	FRN	Other
US$	4,132.2	193.2	1,201.5	250.8
Prev	4,886.5	–	1,201.3	281.9
Other	914.9	–	10.9	172.8
Prev	620.7	–	243.1	192.4
Secondary Market				
US$	19,257.5	1,060.1	10,722.9	2,418.1
Prev	19,763.5	1,123.9	9,880.5	1,976.1
Other	6,919.1	123.6	1,343.2	2,297.2
Prev	7,173.7	130.2	2,196.2	2,513.9

	Cedel	Euroclear	Total
US$	11,558.1	27,777.3	39,335.4
Prev	13,182.8	25,832.9	39,015.7
Other	4,249.1	6,632.3	11,881.4
Prev	6,655.6	6,414.7	13,070.3

Week to February 13 1986 — Source: AIBD

Morgan Stanley boosted by record jump in earnings

MORGAN STANLEY, the blue-chip US investment bank which is offering around 20 per cent of its shares to the public, enjoyed its best year ever in 1985, when net earnings soared by 73 per cent to $105.9m, writes Terry Dodsworth in New York.

The preliminary prospectus for the new issue, aimed at raising around $200m, underscored the rapid expansion of the group since 1981. Revenues in this period have soared from $837m to $1.79bn last year, when they jumped by 34 per cent during a period of exceptional activity in the US securities market.

Profitability also increased dramatically last year, when the company achieved a 34 per cent return on equity, which stood at $314m at the end of December. In 1984, when profits rose by around $10m to $61m after three years of relative stagnation, return on equity was around 26 per cent.

Morgan, currently run as a private partnership, did not give a firm price for the stock offer, but some of its calculations assumed a price of $46 a share. With net tangible assets standing at $21.03 a share, this gives an issue price of somewhat over twice book value.

The document, published over the weekend, showed that some of the senior directors of the firm hold shares valued at around $30m. In addition, Morgan's four top-ranking executives – Mr S. Parker Gilbert, Mr Richard Fisher, Mr Lewis Bernard and Mr Robert Greenhill – earned between $1.5m and $1.375m last year.

The breakdown of the figures by division shows the increasing impact of trading in government stock over the past five years. Revenues in this division, primarily derived from coupon interest and interest in reverse repurchase transactions, increased from $345m in 1981 to $938m last year. In 1985, the group's principal dealing activities, another area which demands heavy capital commitments, also rose dramatically, resulting in an increase in revenues of almost 100 per cent to $243m.

In addition, investment banking revenues leapt ahead last year, when the company's activities in the merger and acquisitions field helped it achieve a 59 per cent rise in revenues to $424m.

Stelco in return to profits

By Bernard Simon in Toronto

STELCO, Canada's largest steelmaker, returned to profitability last year with net earnings of C$77.7m ($55.4m), or 77 cents a share, following a 1984 loss of C$3.3m, nr C$1.69 a share. Sales rose slightly to C$2.4bn, and a gain of C$3.4m accrued from last December's sale of the company's one-third interest in a pipe servicing company.

Mr John Allan, chairman, also ascribed the better than onticipated results to unexpectedly low spending nn repairs and maintenance in the fourth quarter. The company has benefited from numerous cost-cutting measures although the cost nf closing outdated, uneconomical plants resulted in extraordinary expenses nf C$7.6m last year.

Strong demand for consumer products, especially motor vehicles, offset the weak sales to the heavy construction industry.

Meta seeks to ease debt with rights issue

By Alan Friedman in Milan

META, the subsidiary of Italy's Mnntedison which last year took over the Bi-Invest financial and industrial group, is to raise around L200bn ($124.6m) with a rigbts issue on the Milan Bourse.

The three-part share issue, to be proposed to shareholders in early April, is expected to belp Meta to reduce its debt burdens which as of the end of last month stood at around L330bn ($205.6m). This debt level represented 80 per cent of Meta's shareholders' funds.

● Chrysler, the third largest US car maker, is thought to be considering an increase in its shareholding in Italy's Maserati luxury car business. At present Chrysler has 3.5 per cent of Maserati.

CORPORATE FINANCE

Euro-equity issuers aim to stem flowback

"GLOBAL DISTRIBUTION" is the catchphrase for the financial officer of virtually any big company making a share offering nowadays. "Flowback" is its dreaded counterpart: the quick sale of the shares back into the home country of the issuer.

Amid the vogue for "Euro-equity" issues, two distribution structures have emerged which aim to ensure that shares stick with the investors who initially subscribe. Although they have been developed by investment bankers who are far more used to the rapid, cut-throat marketing of Eurobonds, the approach is actually very different.

A typical example was launched on Friday afternoon for Banque Bruxelles Lambert, Belgium's second largest bank, by Credit Suisse First Boston. The 1m-share issue, worth about $51m at the current share price of BFr 2,490, has a small group of four co-lead managers: UK stockbroker Cazenove, Dresdner Bank, Swiss Bank Corporation International and Union Bank of Switzerland (Securities).

CSFB led the first issue of this type last year for Nestle, and has since arranged a number of others. It believes that a small group, with no delegation to geographical managers, ensures close control over an issue and firm placement.

An example of the alternative structure was a $194m offering completed last week for Transamerica Corporation, the US west coast financial services group which is shedding its transport and manufacturing interests. It included a $38.8m tranche which, with a view to ensuring distribution in Europe, was separated off from the US portion—led by Salomon Brothers and Goldman Sachs—end arranged by Swiss Bank Corporation International.

SBCI employed the structure used last year for an issue it made for its parent bank, and for Britoil's offering. Syndication is divided up geographically among co-managing banks each responsible for placing in one country, and not allowed to seek custom elsewhere.

The key Swiss portion was led by SBCI itself, with Credit Suisse First Boston and Union Bank of Switzerland (Securities). SBCI and Morgan Grenfell, with Cazenove, handled the UK. Dresdner Bank dealt with West Germany, EBC Amro Bank with the Netherlands and Banque Nationale de Paris with France.

SBCI believes delegation to regional managers creates a firmer commitment on their part to place the paper, but also provides flexibility so that shares can be channelled to the countries where real demand is seen rather than being insecurely placed just to. meet a specific country target.

SBCI argues that its method, apart from ensuring firmer placement with the retail investor, cuts out multiple calling of investors by different banks trying to hawk the same paper, and removes the pressure on managers to make quick sales.

The alternative view is that the SBCI method adds in an unnecessary layer of management which could diminish the lead manager's control over the issue.

Retail investors are seen as the most desirable and secure targets for Euro-equity placings, by contrast with the US where institutional investors take up most share issues. The biggest retail element is managed accounts, mainly in Swiss banks. By far the largest proportion of Euro-equities has been placed in Switzerland. For Transamerica, no less than 11 banks took part in management and underwriting there.

An unusual feature for the Euro-equity market of Transamerica's offering was the fact that it was priced during the trading day, and not at the previous day's closing level. The practice is quite common in New York. In a volatile stock market, the US managers priced the issue at $35.25 after the share price had dropped a dollar to that level from the previous night's close. Fortunately for the managers, the share price rose slightly by the end of the day.

The Euro-equity market is still in the early stages of development. Commission levels yet to settle at standard levels, though 3½ per cent is fairly common. Transamerica's were 2¾ per cent, the same as for the US part of the sale, while BBL's are 4 per cent.

The differing distribution structures — apart from simply reflecting the desire to create an individual product to sell to corporate clients — demonstrates that the focus is still on ensuring secure homes exist for the shares in Europe as fund managers cautiously shift the emphasis away from fixed income portfolios. They do not represent fundamental differences in philosophy.

Alexander Nicoll

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
U.S. DOLLARS							
Mitsui Bank §‡	100	2001	15	2⅝	100	Mitsui Fin. Int.	2.625
Gannett Co. (a)‡	100	1998	10	8⅜	100	Shearson Lehman Bros.	8.375
Swedish Export Cr. ‡	200	1991	6	8⅝	100⅜	Bankers Trust Int.	8.530
Xerox Credit Corp. ‡	100	1991	5	8⅝	100⅞	Lloyds Merchant Bank	8.404
Christiania Bank †‡	100	1991	5	(e)	100	Merrill Lynch	—
Colgate-Palmolive ‡	100	1996	10	9½	100½	CSFB	9.421
Austria ‡	102	2006	20	9½	100⅛	S. G. Warburg	9.486
Unilever Cap. Corp. ‡	150	1998	12	8⅞	100	Morgan Guaranty	8.875
Sterling Drug ‡	100	1996	10	9⅞	100½	Morgan Stanley	9.798
Ireland ‡	150	1996	10	9⅜	100¼	CSFB	9.336
Gén. Occidentale ¶	00	1993	7	(6½–6⅝)	100	Banque Paribas	*
Fairmont Financial §	20	2001	15	(7–7¼)	100	Kidder Peabody	*
Int. Mortgage Interests (f)‡	15–75	1996	10	8	100	Barclays Merchant Bk	—
B. Naz. del Lavoro ‡	100	1991	5	8¾	100¼	Bk America Cap. Mkts	8.686
EDC ‡	100	1992	6	8½	99¾	CSFB	8.556
GMAC ‡	200	1998	10	9⅛	100⅝	Nomura Int.	9.028
AUSTRALIAN DOLLARS							
BMW Finance ◊‡	75	1996	10	13¾	100½	Orion Royal Bank	13.655
Lloyds Bank NZA ‡	50	1989	3	14⅝	100⅜	Lloyds Merchant Bank	14.482
Norsk Hydro ‡	85	1991	8	14	101	Morgan Stanley	13.711
D-MARKS							
Optec Dai-Ichi Denko ¶‡	70	1991	5	2¼	100	Deutsche Bank	2.250
Deutsche Bank Fin. ¶‡	710	1996	10	6¼	120	Deutsche Bank	3.808
Neste Oy (d)†‡	200	1996	10	¹⁄₁₆	100	Deutsche Bank	—
Euro-DM Securities ‡	211.76	2001	10	0	37.80	Commerzbank	6.701
Euro-DM Securities ‡	211.76	2006	20	0	27.85	Commerzbank	6.600
Euro-DM Securities ‡	211.76	2011	25	0	20.95	Commerzbank	6.452
Euro-DM Securities ‡	800	2019	30	0	16.95	Commerzbank	6.310
SWISS FRANCS							
Brierley Inv. §‡	100	1994	—	4¾	100	Lloyds Bank Int.	4.750
Mitsui Bank **§‡	100	1991	—	1⅞	100	SBC	1.875
Société Cofiroute ‡	125	1996	—	5⅝	100	Bqe Paribas (Suisse)	5.625
Tako Inc. **¶‡	70	1991	—	2½	100	Crédit Suisse	2.500
K Line **‡	100	1993	—	5⅜	100	Crédit Suisse	5.375
Korea Exchange Bk ‡	75	1994	—	6	100½	SBC	5.920
Leucadia Nat. Corp. ‡	75	1996	—	6	100	Man. Hanover (Suisse)	6.000
Thomson-Brandt ¶‡	100	1998	—	4½	100	Crédit Suisse	4.500
Mitsubishi Elec. Corp. **‡	200	1991	—	5⅛	100	UBS	5.125
Nisshin Steel (c)**†‡	150	1993	—	5bp	100	Citicorp Bk (Switz)	—
Toyo Suisan **¶	30	1991	—	(2¾)	*	Crédit Suisse	*
Colgate-Palmolive **‡	100	1993	—	4⅞	100	UBS	4.875
BP Capital **‡	99	1993	—	4⅞	100½	UBS	4.789
Roland Corp. **‡	10	1991	—	5¼	100	Crédit Suisse	5.250
Goodyear Tire & R. ‡	200	2006	—	5⅜	100	UBS	5.375
Settsu Europe	100	1998	—	0	(53.35)	Crédit Suisse	(5.375)
Kinkado Co. **‡	10	1991	—	5¼	100	Chemical Bk (Suisse)	5.250
ECUs							
EIB ‡	100	1993	7	8⅝	100¼	Banque Paribas	8.578
GUILDERS							
FGH Bank (g)†‡	20	1989	3	³⁄₁₆	100	Van Haften & Co.	—
FGH Bank (g)†‡	20	1990	4	³⁄₁₆	100	Van Haften & Co.	—
FGH Bank (g)†‡	20	1991	5	³⁄₁₆	100	Van Haften & Co.	—
STERLING							
GMAC (UK) Fin. ‡	50	1991	5	11	100⅜	Hambros Bank	10.898
DANISH KRONER							
Swedegas ‡	200	1991	5	9⅜	100¼	Svenska Int.	9.310
BELGIAN FRANCS							
BNP (Luxembourg) **	300	1991	6	9	*	BNP (Luxembourg)	*
LUXEMBOURG FRANCS							
Union Bk of Norway **‡	300	1992	6	9	100	Bqe Paribas (Lux.)	9.000
Euratom **‡	300	1992	5.3	8¾	100	Sogenal	8.750
Finans Scandic **‡	300	1991	5	9¼	100¼	BGL	9.185
YEN							
Amex Credit Corp (h)‡	20bn	1996	10	8	101	Nomura Int.	7.852
Postipankki ‡	10bn	1996	10	6⅝	100¾	Yamaichi Int. (Eur)	6.521
IADB ‡	30bn	1998	12	6.4	100	Nomura Secs.	6.502

*Not yet priced. ‡ Final terms. ** Private placement. § Convertible. † Floating rate note. ¶ With equity warrants. ◊ With bond warrants. ‖ Dual currency. (a) 8⅜% first 4yrs (after 4yrs put option or extend for 6yrs at 9½%). (b) Redemption linked to Yen/$ exchange rate. (c) 5bp over 6m Libor. (d) ¹⁄₁₆ over 6 m Libor. (e) 17¼% less 6m Libor (as money market rate), — first coupon fixed at 9%. (f) Minimum coupon, return linked to US property. (g) ³⁄₁₆ over 6m Libor. Note: Yields are calculated on AIBD basis.

Bougainville cost curbs bring firm end to year

BY KENNETH MARSTON, MINING EDITOR

BOUGAINVILLE Copper, the Rio Tinto-Zinc group's major open-pit copper and gold producer in Papua New Guinea, boosted earnings to 20m kina ($20.2m or £14.4m) in the second half of 1985 to bring the year's total to K28.1m compared with K11.6m in 1984.

The final dividend is being raised to 5 toea, making a total for the year of 7 toea compared with 4 toea for 1984. Total borrowings have been reduced to K36.5m, a reduction of K15.1m on the amount outstanding at end-1984.

Sales in 1985 totalled 559,953 tonnes of concentrate containing 168,714 tonnes of copper (167,197 tonnes in 1984), 13,770 kg gold (15,962 kg) and 44,277 kg silver (45,009 kg).

● After a gain of C$3.6m (US$2.6m or £1.82m) from investments sales, the Canadian gold and copper-producing Northgate Exploration has recorded a profit of C$417,000 for the fourth quarter of 1985.

This still leaves a net loss for the year of C$2.17m, or 19 cents a share, compared with a net profit of C$2m in 1984 when there was a gain of C$7.8m on the sale of part of the holding in Whim Creek.

Occidental to sell gas pipeline

OCCIDENTAL PETROLEUM, the US energy group, has reached agreement with the Federal Trade Commission to sell 2,200 miles of natural gas pipeline in order to avoid a veto under anti-trust rules of its $3bn purchase of Midcon, writes Our New York Staff.

The commission required the divestment because of the virtual monopoly held by the Mississippi River Transmission Corporation, a part of Midcon, in the supply of gas to St Louis. Since Occidental has large resources of natural gas, the commission argued that the newly integrated group would have the ability to inflate the price of natural gas artificially.

Officials voted unanimously to block the merger as anti-competitive.

Bayer buys control of research unit

By John Davies in Frankfurt

MAYER, the West German chemical group, has bought a majority stake in a private scientific "think tank" as part of its plans to become more involved in engineering ceramics.

It has bought into the Cremer Reseacb Institute, which is associated with the Cremer group of companies, a medium-sized family business involved in ceramic products.

The institute, based at southern Germany, was set up in 1959 and employs about 30 experts. It has acquired a reputation for pioneering work in aspects of engineering ceramics.

Although details have not been disclosed, Bayer is understood to have taken a 75 per cent stake in the research institute, with the Cremer group retaining 25 per cent.

Bayer already produces basic materials suitable for use in making some engineering ceramic components, but aims to broaden its activities to include the development of finished components made out of high performance ceramics.

Atlas-Copco lifts profits and dividend by 44.5%

BY KEVIN DONE, NORDIC CORRESPONDENT, IN STOCKHOLM

ATLAS-COPCO, the Swedish maker of construction, mining and engineering equipment, increased its profits by 44.5 per cent last year and is increasing its dividend by the same amount.

Profits after financial items rose to SKr 828m ($111m) from SKr 573m in 1984. The group has recovered strongly during the past two years following a steep drop in profitability in 1982 and 1983, when it was forced to halve its dividend to SKr 3 per share. The board is proposing to increase the dividend for 1985 to SKr 6.50 from SKr 4.50.

Turnover rose by 11 per cent to SKr 10.06bn, reflecting a volume rise of 6 per cent. Some 91 per cent of sales came from markets outside Sweden. The value of new orders booked during 1985 rose by 9 per cent to SKr 10.4bn.

The group said that it expected a further rise in both sales and profits during 1986.

The chief jump in profitability last year came from the mining and construction techniques division, with SKr 185m against SKr 35m. Airpower, the compressor division, still contributes the lion's share of group income, however, with profits of SKr 450m, up from SKr 390m.

● Dyno Industrier, the Norwegian explosives, chemicals and plastics group in which Norsk Hydro recently acquired a controlling stake, achieved pre-tax profits of NKr 231m ($31.4m) last year, compared with NKr 182m, writes Fay Gjester in Oslo.

The current year's results are expected to match last year's, and the dividend is to be increased to NKr 3.20 from NKr 3.

Sales rose from NKr 2.9bn to NKr 3.4bn.

● Kone the Finnish lift maker, suffered a 28.2 per cent fall in pre-tax profits last year to FM 133.2m ($25.2m) despite a rise in sales to reach the FM 5bn mark against FM 4.16bn the previous year, Our Financial Staff adds.

The company said the result fell short of budgeted targets. It added that the outlook had not altered significantly from a year ago, but made no forecast for the current year. Its dividend is being maintained at FM 5.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Euphoria as oil price doubts are cast aside

IT HAS taken the US capital markets some time to decide that world oil prices have genuinely cracked. But last week the whole of Wall Street cast doubt aside and was swept along in a wave of euphoria as one announcement after another confirmed that the oil producers were driving down their prices across the board.

By Friday morning, after a week of mounting excitement, the Treasury long bond was poised to fall through the 9 per cent yield mark and with a little help from the latest round of economic statistics, it took scarcely any time at all for dealers to knock it down and drive it back to 8.94 per cent by the end of trading.

Significantly, this was the lowest yield recorded for the 30-year issue since 1978, just before the second oil crisis which sent fuel prices soaring into the stratosphere and the credit markets reeling into a period of extended shock.

Despite the possible negative effects of the precipitate fall in energy values—the difficulties for poor Third World producers, the political instability it could cause in the Middle East and the problems for American banks with large loan portfolios to oil producers at home and overseas—Wall Street's verdict has now come down unequivocally on the side of the positive impact of the change.

The strength of the sentiment over oil was enough to blot out completely the previous week's jitters over the possibility that the Gramm-Rudman deficit reduction law might be thrown out on constitutional grounds by the courts. Equally forgotten was the recent strong employment data, particularly after the announcement that industrial production gained only a modest 0.3 per cent in January, showing a deceleration from the 0.7 per cent in December. "Although economic activity may be picking up, it is not overheating," says Mr Stan Kahan, chief financial economist at Kleinwort Benson. "It is almost as if everything we ever wanted is happening."

The indications that the economy is growing in a way that can be sustained without re-igniting inflation were reinforced this week by figures showing a 0.7 per cent decline in finishing producer prices in January. A great deal of this fall reflected events in the oil market, where cuts in the price of crude are at last beginning to feed through into refined products. "As evidence mounts up in terms of weakening prices, it looks more and more likely that inflation in 1986 will be well behaved," says Mr Kahan.

Over the medium term, many analysts believe that the subdued state of inflation may soon lead to another boost to the credit markets through a further cut in the discount rate. According to minutes of the Federal Reserve Board's Open Market Committee meeting, the central bank decided at its last meeting on December 16-17 to ease credit conditions, saying that it would seek to "decrease somewhat" the pressure on the reserve position of the banks.

With inflation running at a low level, continuing oil price reductions, and the need to help hard-stretched Third World countries which are finding it even harder to meet their financial commitments with money such an expensive commodity, analysts argue that the Fed has both the room to engineer a fall in rates and the inducement to do it.

The central bank will have the opportunity to indicate something more about its current thinking this week, when Mr Paul Volcker, the Fed chairman, appears in Washington to give his half-yearly testimony to Congress.

Just how much inflation fears have retreated is evident from the current shape of the US yield curve, which has been steadily flattening over the past few months as long-term rates plummeted and short-term rates remained steady. When the Treasury long bond dropped through 10 per cent back in mid-November, three-month bills stood at 7.21 per cent and six-month bills at 7.26 per cent. On Friday, the short rate issues were at 7.01 per cent and 7.10 per cent respectively, despite the decline of a full percentage point in the 30-year bond.

Given that the long bond is regarded as one of the most sensitive barometers available of inflation expectations, it is not surprising that economists should be emphasising the sea-change in sentiment that has taken place since around September.

In the corporate bond market, where yields also fell sharply, the week saw strong activity by several mortgage financing institutions. Among other issuers, Commonwealth Edison offered $150m of 10¼ per cent 30-year bonds priced to yield 10.555 per cent, while Freuhauf floated $50m of 10-year notes with a 9¼ per cent coupon, and General Motors Acceptance came to market with a $600m package, consisting of $300m of three-year notes at 8¾ per cent, and $300m of 9¼ per cent paper.

On Friday, Monsanto floated a $150m offer of 9¼ per cent notes due in 10 years and priced to yield 9.43 per cent.

Terry Dodsworth

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	7.88	7.80	7.95	9.91	7.10
Three-month Treasury bills	7.01	7.21	7.11	8.75	6.67
Six-month Treasury bills	7.08	7.26	7.21	9.20	9.81
Three-month prime CDs	7.70	7.85	7.86	9.40	7.33
30-day Commercial Paper	7.65	7.70	7.75	8.95	6.96
90-day Commercial Paper	7.60	7.70	7.65	8.20	7.00

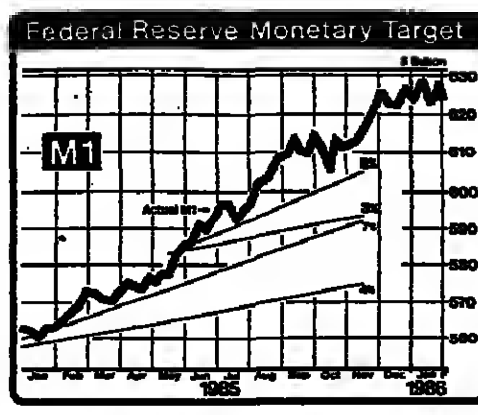
US BOND PRICES AND YIELDS (%)

	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	101¾	+0¼	9.53	9.07	8.11
20-year Treasury	102½	+3½	9.10	8.49	8.65
30-year Treasury	103¾	+3¾	8.94	9.28	0.44
New 10-year "A" Financial	n/a	+3	0.38	0.85	19.00
New "AA" Long utility	n/a	+4½	10.00	10.50	10.63
New "AA" Long Industrial	n/a	+2¾	10.00	10.30	10.50

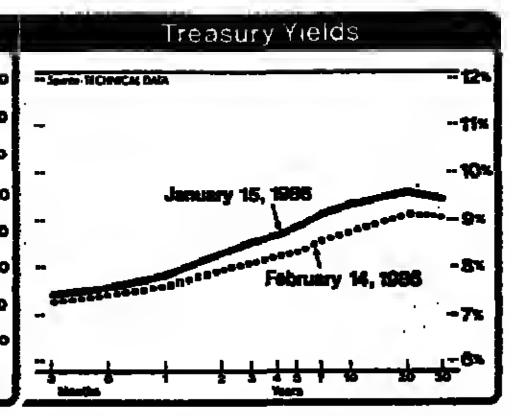
Source: Salomon Bros (estimates).

Money Supply: In the week ended February 1 M1 fell by $2.7bn to $624.6bn.

Federal Reserve Monetary Target



Treasury Yields



FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
AHFC O/S Fin 11¾ 94	100	108⅝	−0⅛	10.12
AIOC 11 88	75	105¾	+0¼	8.68
AIDC 11½ 90	100	101½	0	11.45
Amer Savings 12 88	125	104⅛	+0⅛	10.18
Amer Savings 12¾ 89	100	105⅞	+0¼	10.23
Asian Dev Bk 11½ 93	100	110⅞	+0⅜	9.67
Australia 11½ 90	100	109½	+0½	8.59
Australia 11¾ 95	300	113⅞	+1½	9.36
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Issued	Price	Chg. on week	Yield
RBC 11¾ 90	100	105½	+0⅛	9.41
Rural Bk Aust 12 91	80	107¼	0	10.08
Sanwa Bank 11⅞ 92	150	110	+0⅜	9.59
Saskatchewan 10⅝ 92	100	107⅛	+0⅞	9.17
Saskatchewan 10¼ 90	125	106⅞	+0⅜	9.75
Saskatchewan 11½ 89	100	109¾	+0¼	0.84
Saskatchewan 15 92	150	125⅝	+1	8.58
Saskatchewan 15 89	125	118¾	+0¼	9.95
Scot Intl Fin 14¾ 86	80	115	+0½	11.65
Sears O/S Fin 0 88	500	30⅞	+0⅛	10.00
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Issued	Price	Chg. on week	Yield
Elders 11½ 94	160	114¾	−1	44.19
Elektrowatt 8 98	91	127½	+1½	−6.6
Fujitsu 3 88	180	194¾	−3	2.38
Iotec Inc 8 89	60	118¾	+2½	0.46
Kersagi Gumi 3½ 00	80	218	+28	−100.00
LASMO 9¾ 99	44	85⅞	−1½	71.80
Moet-Hennessy 7 99	50	148¾	+0⅛	−86.22
Murata Mfg 3½ 00	100	132¼	−3¼	17.71
Nippon Oil 3¾ 99	60	110⅝	+8⅜	5.15
Ono Pharm 3¾ 98	80	146¼	+4	−0.8
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

YEN STRAIGHTS; LUXFR STRAIGHTS; GUILDER STRAIGHTS; CANADIAN DOLLAR STRAIGHTS; ECU STRAIGHTS; AUSTRALIAN DOLLAR STRAIGHTS; STERLING STRAIGHTS; EQUITY WARRANTS; CONVERTIBLE BONDS; FLOATING RATE NOTES

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.

FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn—current coupon.

CONVERTIBLE BONDS: US dollars unless indicated. Prem—percentage premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant prem—exercise premium over current share price. Bond warrant ex yld—exercise yield at current warrant price.

† Perpetual.

Closing prices on February 14.

UK GILTS

Hopes of prudent Budget boost confidence

THE UK Government's new tap stock received an enthusiastic welcome to the gilts market last week. In the tender on Wednesday all offers over £94¼, half a point above the minimum, were allotted in full, and the small amount that remained would not, the market was told, be operated as a tap.

On Friday, the Government broker began to sell more of the £20 paid stock, possibly out of the £200m that had been set aside for the National Debt Commissioners. The resulting confusion was not unsettling enough to reverse the week's gains, however, nor to shake the confidence that set in after the Prime Minister and the Chancellor on Thursday promised that next month's Budget would be "prudent and cautious."

The market appeared to take Mrs Thatcher's expectation-dampening literally, and began to look forward to a Budget without vote-buying tax cuts. Instead, it is anticipating a relatively stable public sector borrowing requirement, and improved prospects for a cut in interest rates.

The argument that falling oil prices have left no room for tax cuts drew support from the "Green Budget" presented last week by the Institute for Fiscal Studies. It calculates that reduced oil tax revenues wipe out the scope for "fiscal adjustment" when the oil price reaches £14 — around $19 a barrel at an exchange rate of $1.35.

"If the Government went ahead with tax cuts regardless, the gilt market would have reacted unhappily," said Mr Ian Harwood, of broker Rowe & Pitman. "It would have suggested that the Government was deviating from its path, and that it was deviating because of worries about its electoral performance. That would have enhanced the political risk factor in the market."

The Prime Minister's performance in Parliament last week has not convinced the entire City that tax cuts will not materialise on March 18. Mr Robert Thomas, of stockbroker W. Greenwell, agrees that a strict application of the Chancellor's economic philosophy would rule out tax cuts, but argues that the political balance is very different to 1981, when Sir Geoffrey Howe faced a similar dilemma but remained true to the monetarist faith.

"Political pressures seem much more powerful now than five years ago," he says. "It is unlikely that even so intellectually fastidious a Chancellor as Mr Lawson can withstand them."

Stockbroker Simon & Coates, meanwhile, still sees room for a full £1bn of tax cuts with a PSBR of £8bn—though with a probable eventual overshoot of £1.5bn.

"The longer term supply side gains from lower oil prices to the industrialised economies will allow faster growth and lower unemployment at steady or declining rates of inflation, and there are now reduced risks to the authorities easing economic policy at the margin."

The Bank of England's funding policy in recent weeks certainly does not make the PSBR target of £7.5bn assumed in last year's Budget look sacrosanct.

"Two full-size tap stocks with calls delayed into the next financial year will have chalked up funding of £1.33bn in the first two banking months of 1986-87," says Mr Robert Ballantine of broker Laurie Milbank. "I don't think that squares with the Prime Minister's statements about the Budget."

Mr Ballantine expects a PSBR target of £8.5bn to be announced — not significantly higher than the figure of £8bn forecast for the current year, but still higher than the gilts market now appears to be expecting.

Tuesday's announcement of the January PSBR figures may provide some hints for those who are still hoping that the Chancellor will not expand government borrowing next year. Funding for the current year is just about completed, even though National Savings continues to turn in disappointing sales figures and is still £1bn short of its target contribution to funding. High tax receipts, however, would provide some encouragement for the view that buoyant non-oil revenues may help to offset the drop in oil tax income.

Brokers' forecasts for the Government's surplus on the January PSBR range from £1.7bn to £2.5bn.

George Graham

UK COMPANY NEWS

Charles Batchelor on the people behind the £173m bid for Extel

Earl's team faces uphill struggle

PETER EARL has been involved in some innovative deals in his time. But nothing, he confesses, has prepared him for the stir caused by the audacious £173m takeover bid for Extel from Demerger Corporation.

Dismissed by Extel chairman, Mr Alan Brooker, as "the junkiest of junk bond offers" and received by the City with a mixture of amazement and amusement, the Demerger plan will have an uphill struggle to establish any credibility.

Even before Earl and his team have put together their formal offer document, the odds have moved sharply against them with the intervention of Robert Maxwell, who has built up a 13.5 per cent stake in Extel.

What Earl and his team are proposing is the acquisition and break-up of Extel into its five component parts. Activities such as publishing and printing would be floated off and Demerger would "bolt on" a new top management layer to the core business and sporting information operation. This would allow Extel to exploit what Earl sees as its unrealised potential.

But to achieve this Earl must persuade Extel's shareholders to swap their existing shares for shares and loan notes in the newly-created Demerger Corporation, a creature without precedent on the UK takeover scene. If the revitalised Extel does well Earl and his backers would be rewarded by a 15 per cent stake in the core information business.

"It's almost as if someone has looked at what is happening in the market and decided to take four leaps in evolution and assume the City will go along," said one fund manager. "We looked at it with some ouement and then turned to more serious things," commented another.

Despite the City's scorn, Earl insists he means business. "If our bid is so nonsensical why did Extel go to the trouble of sending out a detailed defence document before we have even made our formal offer?" he asks.

In the absence of a cash alternative to Demerger's all-paper offer the prospects for the bid depend almost entirely on the credibility of Earl and his team. So who are the men, and women, who have given Extel such a fright?

Still only 31, Earl is managing director and a 50 per cent shareholder in IfincorpEarl, a small corporate finance house set up last May with the help of Saudi and Kuwaiti funds. IfincorpEarl specialises in raising small packages of convertible Eurobond finance for corporate clients, placing the bonds with a network of Middle Eastern lenders.

It has also arranged a couple of small private company acquisitions and has ambitions to develop its mergers and acquisitions business on a grander scale.

Its youthful, five-strong executive team comprises Earl, his wife Emma, formerly a merger and acquisition specialist with Lazard Brothers and Bear Stearns, the US investment bank, and three others with accountancy and stockbroking backgrounds.

A half-share in IfincorpEarl is owned by Ifincorp SA, a Luxembourg-registered fund management group with $100m of Saudi and Kuwaiti assets.

After reading ancient history and philosophy at Oxford and economics at Harvard, Earl joined the Boston Consulting Group, the prestigious US business consultancy.

But the long hours and the feeling he wanted to see if he could actually apply the remedies he had helped devise as a consultant, prompted a move to Blyth Eastman Dillon International, the US securities firm.

It was while he was with Blyth that Earl initiated work on bringing Oriflame International, the Luxembourg-registered cosmetics group, to the London Stock Exchange. This flotation, which finally took place in 1982, was one of the first instances of a non-UK company with no listing in its local market, obtaining a Stock Exchange quote.

Earl then moved to Orion Royal Bank, part of the Royal Bank of Canada group, where, in 1982, he played an important role in plans to provide a $35m of rescue finance for Laker Airways. Within less than 48 hours, however, the rescue bid failed after being dubbed "unrealistic" by one of the joint receivers.

It was while Earl was at Orion that he established the Middle Eastern contacts which have proved so useful since. These were strengthened when he moved to the Bahrain-based Arab Banking Corporation as a director of its newly-established London merchant bank. He took it into contested UK takeover bids, advising Finlan Group, a textile company, on its offer for Lincroft Kilgour, a small textile company.

This controversial and bad tempered bid battle prompted censures from the Takeover Panel for both sides and an admission from Earl that his team had compared Finlan's pre-tax profits with Lincroft's post-tax results in one shareholder circular.

The Finlan connection has emerged again in the Demerger bid for Extel. Mr Michael Rhode, chairman for the past three months of Finlan, and a friend of Earl's since the latter's Orion days, is chairman of Demerger.

Yale-educated Rhode, 45, a computer software expert, will provide the software expertise for developing Extel's services if the bid succeeds.

How credible does the City find the Demerger team and their advisers Ifincorp Earl? Not very, is the blunt answer.

"The names don't mean a lot to me," commented one fund manager. "I've heard of them," said another, "but I do not see any grounds for believing they could run Extel any better than it is at the moment."

Mr Michael Rhode (left), chairman of Demerger, and Mr Peter Earl, also a director of Demerger and architect of the bid for Extel

London Park in £18m hotel deals

London Park Hotels is buying two hotels for a total of £18m in shares and cash in deals which will double the number of rooms it offers to 1,200 and increase the number of hotels it operates to six.

London Park has conditionally agreed to pay £11.75m for the Prince of Wales hotel in London W from two companies associated with Mr Nurdin Jivraj, deputy chairman of *London Park—Ruvicon Trading* and Finance and Stagbourne.

The Prince of Wales has 316 bedrooms, but these may be reduced to about 230 under plans to renovate it to three-star standard. This work is expected to mean the hotel will be closed for 18 months.

London Park also plans to purchase the 180-year lease of the 307-room Crest Heathrow from Bass, the brewing and hotels group, for £6.25m in cash.

The Prince of Wales purchase will be funded by a cash payment of £6.50m and by the issue of 1.2m new shares. ANZ Merchant Bank has agreed to buy these shares for £5.16m and has conditionally placed them at 430p per share, principally with institutional clients of Capel-Cure Myers, London Park's stockbrokers.

London Park plans to concentrate on the commercial sector rather than the tourist trade and is continuing to look for further acquisitions.

It estimated pre-tax profits rose to not less than £1.5m in the year ended December 1985 from £594,000 previously. The board expects to recommend a final dividend of 6.5p taking the total dividend to 10p per share, up from 7.38p.

Rank in talks with ECC

Rank Organisation is understood to be in talks with English China Clays hammering out the details of a purchase of the quarrying group's leisure interests for close to £40m.

Under the guiding hands of Sir Patrick Meaney and Michael Gifford, chairman and chief executive respectively, Rank has undergone a significant restructuring much improving its image in the City. They are now looking for acquisitions.

The group has recently purchased the loss-making Blue Sky Tour operation from British Caledonian and now Rank is hoping to add ECC's Haven Holidays and Blue Line Cruisers to its holiday interests which include Wings, OCL and Butlins.

ECC's leisure activities have progressed well in recent years and increased operating profits by over £1m to £3.76m in the last financial year on a near £4m improvement in sales to £20.82m.

The activities were originally encouraged by ECC as a way of utilising exhausted quarries but they remain peripheral to the core mineral operations which ECC is keen to expand.

Haven operates holiday parks in both the UK and the Continent. Last year its domestic operations were slightly restructured with the sale of one holiday park for £860,000 and the purchase of one in Torbay for £370,000 which is currently being refurbished for the 1986 season.

Holiday parks in France and Spain are marketed under the Haven Abroad banner.

SHARE STAKES

CHANGES IN company stakes announced over the past week include:

Polly Peck — Restro Investments (a private company beneficially owned by Mr Asil Nadir) has purchased a further 400,000 ordinary shares—250,000 at 145p, 100,000 at 154p and 50,000 at 157p. Mr Nadir holds 29,913,526 ordinary (27.5 per cent) of which 28,297,960 are held through Restro.

Oceonics Group — The following directors have disposed of shares: R. F. Aird 560,000 reducing his holding to 30.70 per cent (32.51 per cent), and N. G. Allen 140,000 altering his holding to 26.93 per cent (27.39 per cent).

Comtech—P. B. Moody, director, has exercised option to acquire 25,193 shares.

Holden Hydroman—G. Page-Jones, director, sold 16,500 ordinary shares and holding amounts to 132,860 (3.4 per cent).

Zetters Group—P. Zetter, director, disposed of 25,000 shares.

Joseph Webb—F. R. Jeynes, director, purchased 20,000 ordinary on February 7 at 20p.

ASDA-MFI—H. Plotnex, director, disposed of 189,621 ordinary altering total to 1,523,832 shares (0.15 per cent), also P. R. Baines, director, disposed of 17,777 reducing holding to 150,000 shares (0.14 per cent).

Cluff Oil—L. E. Letts, a director, purchased 30,000 ordinary shares.

Oldacre Holdings—on February 10 director D. R. Carpenter, purchased 20,000 ordinary at 70p.

FINANCIAL TIMES STOCK INDICES

	Feb. 14	Feb. 10	Feb. 12	Feb. 11	Feb. 10	Feb. 7	1985/86 High	1985/86 Low	Since Compilation High	Since Compilation Low
Government Secs.	82.55	82.07	82.20	82.15	82.24	81.49	84.57	78.02	127.4	49.10
Fixed Interest	87.75	87.66	87.55	87.40	87.41	87.50	90.38	82.17	150.4	50.53
Ordinary	1218.8	1212.5	1206.0	1191.4	1196.0	1187.7	1912.8	911.0	1218.8	49.4
Gold Mines	317.1	330.9	330.6	326.7	328.3	322.0	536.9	257.9	734.7	43.5
FT-Act All-Share	719.01	716.54	714.08	707.48	709.07	702.15	719.01	581.88	719.01	51.92
FT-SE100	1477.9	1473.5	1470.0	1453.9	1461.5	1445.0	1477.9	1206.1	1477.9	986.9

FINANCIAL DIARY FOR THE WEEK

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS— [illegible]

BOARD MEETINGS— [illegible]

DIVIDEND & INTEREST PAYMENTS— [illegible]

TOMORROW

COMPANY MEETINGS— [illegible]

BOARD MEETINGS— [illegible]

DIVIDEND & INTEREST PAYMENTS— [illegible]

WEDNESDAY FEBRUARY 19

COMPANY MEETINGS— [illegible]

BOARD MEETINGS— Interims: Elders IXL, Grosvenor Square Props, Harvey and Thompson, Ralsc Inds

DIVIDEND & INTEREST PAYMENTS— Dertend Stamping 2.4p, Homestake Mining 5cts, Sterling Inds 9.75p

THURSDAY FEBRUARY 20

COMPANY MEETINGS— Grainger Tst. 57 Grainger Street, Newcastle upon Tyne, 12.15. Horne (Robert) Grp, Huntsman House, Mansion Close, Moulton Park, Northampton, 11.00. Stakis, Stakis Normandy Hotel, Inchin. [illegible]

FRIDAY FEBRUARY 21

COMPANY MEETINGS— [illegible]

BOARD MEETINGS— [illegible]

DIVIDEND & INTEREST PAYMENTS— [illegible] Nts 1997 $298.72, Stead and Simpson 1.1p, A NV 1.1p, Stirling Group 9.6p, Tesco 2.1p, Towngrade Securities 1.1p, Trans-Natal Coal Corp Uo Subord Comp Cnv Dbs 53.975cts, Trans-Oceanic Tst 2.63p, Treasury 10pc 1992 5pc, Watson and Philip 4.1p

SATURDAY FEBRUARY 22

DIVIDEND & INTEREST PAYMENTS— Exchequer 12½pc 1994 6¼pc, Treasury 11½pc 1989 5¾pc

SUNDAY FEBRUARY 23

DIVIDEND & INTEREST PAYMENTS— Treasury 2½pc IL 2011 1¼pc

BASE LENDING RATES

ABN Bank	12½%	■ Hambros Bank	12½%
Allied Dunbar & Co.	12½%	Heritable & Gen. Trust	12½%
Allied Irish Bank	12½%	■ Hill Samuel	‡12½%
American Express Bk.	12½%	C. Hoare & Co.	12½%
Amro Bank	12½%	Hongkong & Shanghai	12½%
Henry Ansbacher	12½%	Johnson Matthey Bkrs.	12½%
Associates Cap. Corp.	12½%	Knowsley & Co. Ltd.	13 %
Banco de Bilbao	12½%	Lloyds Bank	12½%
Bank Hapoalim	12½%	Edward Manson & Co.	13½%
Bank Leumi (UK)	12½%	Meghraj & Sons Ltd.	12½%
BCCI	12½%	Midland Bank	12½%
Bank of Ireland	12½%	■ Morgan Grenfell	12½%
Bank of Cyprus	12½%	Mount Credit Corp. Ltd.	12½%
Bank of India	12½%	National Bk. of Kuwait	12½%
Bank of Scotland	12½%	National Girobank	12½%
Banque Belge Ltd	12½%	National Westminster	12½%
Barclays Bank	12½%	Northern Bank Ltd.	12½%
Beneficial Trust Ltd	13½%	Norwich Gen. Trust	12½%
Brit. Bank of Mid. East	12½%	People's Trust	13½%
■ Brown Shipley	12½%	PK Finans. Intl. (UK)	12½%
CL Bank Nederland	12½%	Provincial Trust Ltd.	12½%
Canada Permanent	12½%	R. Raphael & Sons	12½%
Cayzer Ltd.	12½%	Roxburghe Guarantee	13 %
Cedar Holdings	13 %	Royal Bank of Scotland	12½%
■ Charterhouse Japhet	12½%	Royal Trust Co. Canada	12½%
Citibank NA	12½%	Standard Chartered	12½%
Citibank Savings	¶12½%	TCB	12½%
City Merchants Bank	12½%	Trustee Savings Bank	12½%
Clydesdale Bank	12½%	United Bank of Kuwait	12½%
C. E. Coates & Co. Ltd.	12 %	United Mizrahi Bank	12½%
Comm. Bk. N. East	12½%	Westpac Banking Corp.	12½%
Consolidated Credits	12½%	Whiteaway Laidlaw	13 %
Continental Trust Ltd.	12½%	Yorkshire Bank	12½%
Co-operative Bank	*12½%		
The Cyprus Popular Bk.	12½%		
Duncan Lawrie	12½%		
E. T. Trust	12 %		
Exeter Trust Ltd.	13 %		
Financial & Gen. Sec.	12½%		
First Nat. Fin. Corp	13½%		
First Nat. Sec. Ltd.	13½%		
■ Robert Fleming & Co.	12½%		
Robert Fraser & Ptrs.	13½%		
Grindlays Bank	‡12½%		
■ Guinness Mahon	12½%		

■ Members of the Accepting Houses Committee.

* 7-day deposits 8.70%. 1-month 8.80% Top Tier—£2,500+ at 2 months notice 12.06%. At call when £10,000+ remains deposited.

‡ Call deposits £1,000 and over 9% gross.

¶ Mortgage base rate.

§ Demand dep. 8¾%. Mortgage 13%.

RECENT ISSUES

EQUITIES

Issue price p	Amount paid up	Latest Renunc. date	1985/6 High	1985/6 Low	Stock	Closing price p	+ or −	Net Div.	Times covered	Gross Yield	P/E Ratio
§160	F.P.	28/2	178	168	✻Brookmount	178	+5	bg0.6	4.4	2.8	11.5
587	300	7/5	325	283	Cable & Wireless 50p	325	+5	F9.6	2.6	3.2	17.4
§66	F.P.	31/1	65	32½	✻Granyte Surface 10p	65	.....	Q9.1	2.6	4.6	11.6
—	F.P.	—	175	100	Intl. Inv. Tst. J'rsy wts	162	.....	—	—	—	—
10	F.P.	5/3	120	115	Klearfold Inc. $0.01	115	.....	bQ4.7c	3.0	2.7	12.2
105	F.P.	14/0	128	118	Macro 4 5p	124	+1	bg1.0	6.5	1.2	13.0
§197	F.P.	7/3	134	125	✻Microsystems 10p	126	.....	bg1.75	4.5	2.0	14.9
¶¶330	P.P.	21/2	360	330	Really Useful Grp. 5p	353	+3	b11.25	2.2	4.4	14.2
¶ ¶	F.P.	—	328	277	Storehouse 10p	326	−2	u5.7	2.8	2.5	20.2
††	F.P.	—	20	7	Telfos Warrants	20	+2	—	—	—	—
100	F.P.	—	95	25	Throgmorton USM	95	.....	—	—	—	—
120	P.P.	—	160	156	Wellcome	160	.....	ug2.08	2.8	1.8	21.5
—	F.P.	—	22	12	Westland Warrants	18	−4	—	—	—	—
140	F.P.	7/6	144	140	✻Wickes 40p	143	.....	bg2.0	4.7	2.0	15.1

FIXED INTEREST STOCKS

Issue price £	Amount paid up	Latest Renunc. date	1985/6 High	1985/6 Low	Stock	Closing price £	+ or −
97.205	25	4/4	24⅝	20¼	Allied Lon.Props.10¾%1stMort.Deb.2025	23¼	+¼
¶¶	F.P.	—	106	104	Anglo-Nordic 11½% Cm. Pf.	105	.....
¶¶	F.P.	—	93	92	Do. 10% Cnv. Uns. Ln. '89/92	92	.....
§99.746	225	11/4	97	25¾	First Scot. Am. 11½% Deb. 2016	97	+¾
‖	Nil	27/3	3pm	3pm	Lon.Shop Prop.9¼%Cnv.Uns.Ln.'99/04	3½pm	.....
100	£10	30/5	10¼	10	Mid Sussex Wtr.8¼% Red. Pref. 1996	10½	.....
—	F.P.	—	100⅛	99¾	Nationwide Bldg. Soc. 12½% 9/2/87	100⅛	.....
§99.515	£40	26/9	40¾	38	Rosehaugh Greycoat 11%1st Mt 110 2016	39¾	+¼
††	F.P.	27/0	94	99	Telfos 9% Pruf.	93	.....
§99.706	£40	26/2	40¼	36¼	T. T. Finance 11¾% Gtd. Deb. 2016	38½	+⅝
100	F.P.	—	99	98	Throgmorton USM 5½%Pt.Cnv.Red.Prf.	99	.....
‖	Nil	—	17ppm	16ppm	Westland 7½% Cnv. Cum. Prf.	16ppm	−1

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renunc. date	1985/6 High	1985/6 Low	Stock	Closing price p	+ or −
89	F.P.	6/6	100	89	✻Cannon St. Invs. 20p	93	+1
100	F.P.	7/3	123	110	Chemring Cnv. Pfd. Ord. 5p	120	.....
750	Nil	21/3	80pm	43pm	CALA 50p	43pm	.....
Dm580	Nil	—	46pm	30pm	Commerzbank Dm10	30pm	.....
935	Nil	13/3	63pm	38pm	Cray Electronics 10p	40pm	.....
207	F.P.	—	225	215	✻Electron Hse.†	296	.....
807	Nil	—	95pm	20pm	Do. Do.†	25pm	.....
94	Nil	—	16pm	12pm	Meggitt Hldgs. 5p	15pm	.....
816	Nil	24/3	65pm	47pm	✻Midsummer Inns 50p	65pm	+6
††200	F.P.	67/3	83	88	Telfos	82	.....
33	Nil	10/0	7pm	5pm	Walker (C & W) 15p	5pm	.....
140	Nil	27/3	34pm	28pm	Watsham's 5p	34pm	.....
60	Nil	—	25pm	15pm	Westland	16pm	−5

Renunciation date usually last day for dealing free of stamp duty. *b* Figures based on prospectus estimates. *g* Assumed dividend and yield. F Forecast dividend cover on earnings updated by latest interim statement. H Dividend and Yield based on prospectus or other official estimates for 1986. ‡ Indicated dividends: cover relates to previous dividend: p/e ratio based on latest annual earnings. *u* Forecast otherwise indicated. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation, merger or takeover. ■ Allotment price. ✻ Unlisted securities market. ‡‡ Dealt in under Rule 535 (3). ♥ Dealt in under Rule 535 (4) (a). †† Units comprising two ordinary, one preference and one warrant.

FT Share Information

The following securities have been added to the Share Information Services:

Adelaide Petroleum (Section: Oil and Gas)

Chancery Securities (Banks, Hire Purchase, Leasing, etc.)

Jacques Vert (Drapery and Stores)

Key City Properties (Property)

Otter Exploration (Mines-Australian)

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year		Date	Announcement last year
Anglo American Gold	Mar 7	Final 850c	Marley	Feb 25	Final 2.35
ABA	Mar 15	Final 0.9	*Midland Bank	Mar 5	Final 14.5
BICC	Mar 20	Final 7.04	Mitchell Cotts	Mar 15	Interim 1.5
*BSR	Mar 4	Final 1.296	*NatWest	Mar 4	Final 18.34
BTR	Mar 6	Final 7.25	Nottingham Manufctrg	Feb 11	Final 5.1
*Barclays Bk	Mar 6	Final 13.5	Peterson Zochonis	Mar 18	Interim 1.56
Barratt Developmnts	Mar 19	Interim 2.31	*Peachey Property	Feb 18	Interim 3.0
Bejam	Mar 13	Interim 1.75	Philips Lamps	Mar 7	Final Fl 1.40
*Berisford (S. and W.)	Feb 24	Final 7.0	Provident Financial	Mar 5	Final 7.0
Bestobell	Mar 20	Final nil	*Ransomes Sims and Jefferies	Mar 10	Final 14.0
Bowater	Mar 27	Final 5.0	Rockware	Mar 21	Final nil
*British Petroleum	Feb 20	Final 20.0	Rowntree Mackintosh	Mar 14	Final 7.4
Britoil	Mar 21	Final 8.2	*Royal Insce	Feb 27	Final 15.0
Cadbury Schweppes	Mar 7	Final 4.3	Saga Holidays	Feb 28	Final 2.7
Collins (W.)	Mar 12	Final 3.0	STC	Feb 27	Final 5.76
Commercial Union	Mar 7	Final 8.86	Sime Darby	Mar 3	Interim 4 sen
Cons Gold	Mar 5	Interim 8.5	Shell	Mar 14	Final 21.1
Cons Plants	Mar 7	Interim 3 sen	Suter	Mar 20	Final 2.3
*Dalgety	Feb 17	Interim 11.0	*TI	Mar 8	Final 8.0
De Beers	Mar 12	Final 27.5c	Transport Development	Mar 14	Final 4.0
*Fisons	Mar 4	Final 2.7	Turner and Newall	Mar 22	Final 1.6
*General Accident	Mar 5	Final 12.0	Ultramar	Mar 13	Final 6.5
General Mining	Mar 7	Final 135c	Unilever	Mar 6	Final 24.03
Guest Keen	Mar 13	Final 6.6	United Biscuits	Mar 13	Final 4.8
Hepworth Ceramic	Mar 22	Final 4.0	*Vickers	Feb 24	Final 8.0
*Hong Kong and Shanghai Bkg.	Mar 11	Final $0.31	Wagon Finance	Feb 14	Final 2.5
Horizon Travel	Mar 19	Final 3.52	Willis Faber	Mar 20	Final 3.5
*ICI	Feb 27	Interim 18.0	Wolseley-Hughes	Mar 13	Interim 3.0
*Kleinwort Benson	Mar 11	Final 8.0	Yorkshire Chemicals	Mar 12	Final 1.75
Lex Service	Mar 8	Final 8.6			
*Lloyds Bank	Feb 28	Final 17.0			
*Low and Bonar	Mar 10	Final 8.7			
*McAlpine (A.)	Feb 24	Final 7.5			

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims:—Dalgety, Goodhead Print, Impala Platinum, Mann and Co. Prolimeter, Alfred Walker.

Finals:—C.S.C. Investment Trust, Debron Investments, Temple Bar Investment Trust.

FUTURE DATES

Interims:—

Cein Industries	Feb 20
Copn Allmen International	Feb 27
Den Bros Buist	Feb 21
Harvey and Thompson	Feb 13
Brocklehn	Feb 21
Tor Investment Trust	Feb 20

Finals:—

Crown International Prods.	†Feb 20
Family Investment Trust	Mar 5
McAlpine (Alfred)	Feb 24

†Amended

MANAGEMENT

EDITED BY CHRISTOPHER LORENZ

John Garnett

A torch-carrier for positive leadership

John Lloyd profiles the retiring director of the Industrial Society

John Garnett: not readily typecast

". . . . and there we were, in the ammunition room of the HMS Malaya, worst part of the ship; if it was hit you all went, and the dirtiest man in it was the calmest. I was terrified, I said to him, how do you keep your nerve? And he said, it's only if your name is on it, you have to worry. Only if your name is on it."

"Such an enormous wealth of experience and talent and courage everywhere, if you seek it out and can use it."

WHEN John Garnett retires as director of the Industrial Society next summer, a bright splash of colour goes from the British scene. Garnett can't be readily typecast: you have him down as the quintessential toff do-gooder and he moves on to demonstrate that he's quite aware of the possibilities of being cast in that role; really he's as good at talking bottom lines as any. And he's building a house for himself and his family stone by stone on the Isle of Wight, not bad for a toff or indeed anyone of 64. But the idea persists that his work is in the missionary vein, a light to lighten the dark corners of industrial practice.

His work is to change the face of British industry. It's a nice job if you can get it; he's had it for nearly a quarter of a century, chiselling away at some of the less attractive features. *He leaves it still an optimist,* still whistling the same tunes he did when he came in.

These are: to inculcate the management of industry with the responsibility for positive leadership of their people; to build effective work teams in which the members of the teams understand what they are doing and why; to develop individual abilities so that all may contribute to the common enterprise.

His family had roughly similar sorts of aims. His father, Dr Maxwell Garnett, was secretary of the League of Nations Association; his uncle, Ronald Poulton, a progressive industrialist and an heir to Huntley & Palmer.

He commanded a landing ship during the war, then got a 2:1 in Economics from Cambridge and joined ICI. He was sent to Glasgow to be a clerk; he married and had children, lived in a tenement block above a fleapit theatre on St George's Circus ("we were in complete poverty, heard the programme changing three times a night down below.") Up at ICI's offices in Bothwell Street, it was little better: no one even knew what programme was on, let alone when it changed. "You could never discover what was happening: only managers went to the meetings. The company sent round bulletins about what was happening in its US subsidiaries but you didn't know what was happening here. Apparently only money made us tick; you longed for your superior to tell you what was going on."

Shop stewards

He climbed the managerial ladder, finally getting (what I longed for) the personnel job at the company's plastics factory near Blackpool. There, he helped the company train shop stewards: "We gave them courses in public speaking and in the company's policies, and 18 months later they all got chucked out by their members." From that Garnett developed a lifetime theme: "You must get management to communicate. It is not the stewards' job to communicate on behalf of the firm. It is their job to pass on grievances and have them redressed."

He became director of personnel for the plastics division but the appointment was not a success. "They said, 'we think he's too concerned with people.' Ah yes, well, I learned from that, a lesson I never forgot: always make sure you see what you're doing as a matter of profits too. The Industrial Society never makes these mistakes." Garnett then became head of communications, trying to get the company to agree that its workers must be told why they are doing something—"people cannot be enthused unless they know *why* they are doing something."

But by 1961, he was looking about him and heard that the Industrial Society needed a director. It was rather up his street. ICI, somewhat chillingly, said he should seriously consider it. He thought for four days; got ten good reasons for not taking it (pensions, security, all that kind of thing) then decided to apply.

The Industrial Society was terribly British. Robert Hyde, who had begun it as the Industrial Welfare Society in 1918 after looking after the welfare of the boys who worked in the Ministry of Munitions during the war, had been a youth worker and vicar in London's East End. He had become aware, working in the Ministry, of the minimal attention paid to the welfare of workers. In his memoir, "Industry was my Parish," he cites an extract from the daybook of a London company from before the First War:

"On July 8th, Buxton is discovered about 2 pm in one of the water closets with a razor in his hand and a pool of blood on the floor. He had tried to cut his throat but had only partially succeeded, the razor being blunt. He was patched up by a doctor, who happened to be buying in the showroom, and was sent home in a cab. He was able to come in three days later, but we instructed Mr B that he could not continue Buxton in our employ. We considered that his doing such a thing in our premises showed an utter *disregard for us,* and we heard that he was in pecuniary difficulties. We had nothing against his character otherwise, but he seemed a common illiterate man."

Through its development, the Society retained a certain missionary zeal; it promoted youth camps as well as industrial legislation. Commander Goote, a member of the Society's staff in the 1930s, told employers to encourage "mass singing, the value of which is frequently overlooked." Hyde reluctantly retired in 1949, at the age of 71. John Marsh, formerly director of the Institute of Personnel Management, took over, shifting the society's work towards "human relations" and management techniques, moving on himself in 1961.

In came Garnett. He came with more than a few ideas of what he wanted to do—among the most important derived from the inspirational leadership he and others had experienced at ICI. "One great thing was to get people to do something: if people are doing something, you will achieve happiness."

He found on the IS board a number of worthies who had done badly in business: but he also found people like Richard O'Brien, later chairman of the Manpower Services Commission; Jim Conway, the general secretary of the Amalgamated Union of Engineering Workers; and Campbell Adamson, later director general of the CBI, who rallied round and helped produce a new direction for the Society.

From John Adair, a Sandhurst lecturer, he took the concept of "action centred leadership," composed of three main components: "achieve tasks"; "build team"; and "develop individuals." These three elements form interlocking circles on one side of a little plastic card the Society likes to give out; on the other are such injunctions as "Make leaders accountable for 4-15 people; practice and instruct them in the three circles"; or "serve people in the team and care for their wellbeing; improve working conditions and safety; work alongside people; deal with grievances promptly and attend social functions."

At a meeting of young industrialists in 1963, Garnett got acceptance of the Society's fundamental aims: to encourage effective leadership, to promote positive union-management relationships where each recognised the essential role of the other; to ensure that the terms and conditions of work were fair and equal; to communicate well through managers and supervisors; and to develop young people's potential at work. The big breakthrough was a commitment to the role of the unions: it allowed the Society to overcome some of the suspicion in which it had been held (when Garnett went to see George Woodcock, the TUC general secretary, on taking over, Woodcock had told him that his ideas were the kind of thing which "the employers give us to help keep us down").

Garnett also pushed the Society towards widening its market, increasing its income from courses and consultation from £145,000 in 1962 to nearly £500,000 at the end of the decade. *Today, the Society* turns over some £6m a year, and employs 280 staff; it survived a lean year in 1980 when Garnett had to sack 68 people to survive, and appears to be in good shape to pass on to a successor.

"We're not interested in theory here," says Garnett. "We want people to be practical. We're independent—but we're not impartial, we're passionate about the need to communicate. We believe in the duties of management; we believe that you can con people twice and after that you can't do it again, so it is much better to be straight." Garnett, having followed a straight course himself, leaves in July. Someone else—and he or she had better be good—must now provide a spur and a conscience for the country's leaders.

Sheffield University

A UK bridge with Japan

Nick Garnett explains the role of an academic unit

THE CHIEF executive of a medium-sized British manufacturing company is remembered almost with affection by the Japanese business services unit at Sheffield University. He had refused point blank to accept that he, his salesforce or anyone else in his company's management needed any advice on how to sell in Japan. The worried sales team sneaked behind his back and bought some help from the unit.

There was the service company, too, desperately seeking a list of the names and phone numbers of likely Japanese customers for its client's products so it could mount a telephone selling campaign cold. "Don't bother," was the advice. "You will not get anywhere doing it that way."

One major British confectionery company was even trying to sell its sweets to the Japanese in packages made up by its Hong Kong agent with some of the script in characters unconverted from Chinese to Japanese.

Plenty of British managers harbouring a lopsided view of how to do business with the Japanese turn up on the telephone line to Rosemary Yates, the unit's Japanese speaking development manager.

"British companies are getting much better in their dealings with Japan but a lot of companies do not try hard enough or try with the wrong motives," she says. "Many of them are not good listeners either."

The unit was set up in March 1983 and has a client list of 200 companies. It provides interpreters, organises promotional material and lays on business language courses as short as a one and a half days' duration. But it also offers monitoring of industrial sectors and markets in Japan, preparation of commercial information on Japanese companies and the search for an advice on likely distributors for British products.

Providing some services similar to those of London University's School of Oriental and African Studies, the unit employs only three but can count on the skills of a dozen Japanese speakers at the university, its technical departments and a network of researchers and advisers in Japan. It has a small turnover of £50,000 but is now offering business help for companies trying to break into Korea while it seeks more cash for itself in the face of tougher government cash curbs on universities.

Yates is in a good position to witness some of the worries and problems of British companies trying to make headway with the Japanese. She spends part of her time quietly trying to persuade many of them not to do things they seem particularly keen on doing, especially when they are hosts to the Japanese in Britain.

Organising itineraries so hectic that the Japanese visitors have no time to catch their breath is one. "I don't think companies here should try to out-Japan the Japanese with this. You can have a whirlwind visit in Japan but over here that can be counterproductive."

With the mountains of books published on Japan it is a little disconcerting to find that business cards are still causing problems. Companies frequently ask the unit to print cards in much smaller numbers than they will need. Instead of black print on white cards at the standard size of 9mm by 5.5mm, many British managers and salesmen like over-ornate cards of the wrong size. "If your card is too small it disappears in the Japanese card boxes and you no longer exist."

Confusion

The need to expend a great deal of time, money and patience in forging links with the Japanese and Japanese companies has registered with almost every company that uses the unit. But in practice many of them hold back from the long term business commitment this implies. Planning over such a basic tool as a catalogue of company products printed in Japanese is also too often left to the last minute.

Use of language by English-speaking Japanese can also provoke confusion in British management ranks. Saying "yes" often means "I understand what you are saying" rather than a specific agreement to something requested. Rule of thumb is to ask specific questions requiring a precise answer, the unit advises its customers.

Continuity in business relationships is in some ways more valued by the Japanese than by some other nationalities but this is often not fully understood by their British partners.

If someone is leaving the British company the Japanese partner likes the courtesy of being told who will step into the vacated pair of shoes.

A clutch of enquiries comes from those who have already met the Japanese they wish to do business with but are getting off on the wrong foot. In one case the company wanted a letter translated into Japanese, photostated and sent out in a mail shot.

"They had already met these Japanese. We told them it must be a personal letter and, in this case, in English. If they are English-speaking Japanese and you have been talking to them in English it can offend them by writing in Japanese, implying perhaps that they are not up to a letter in English."

Yates is sometimes forced to broach awkward personal subjects. For instance, this could involve warning a British company whose marketing manager is from an ethnic minority that he or she might come up against rather pronounced racial attitudes in Japan.

Many European companies do not enjoy and might even resent adjusting their behaviour to suit the Japanese. Some of them also hold more caustic views about Japanese business practices than those of the university's Japan unit. This might be particularly so for those organisations struggling with Japan's ever-growing invisible trade barriers and its companies' continuously shifting raw material specifications.

Yates says British companies remain intimidated by "myths" and the Japanese language. But though a Japan-lover, she is also aware of the need for companies to defend themselves when dealing with the world's second most powerful industrial nation.

"One large company with a joint venture with Japan was complaining that they were not allowed to take photos of the Japanese plant but the British company allowed them to take pictures of theirs. It just surprises me that we are such mugs."

British companies suffering from an inferiority complex might find it worthwhile to know that all the unit's help is not one way. A request has just arrived on Yates's desk from a Japanese company in the Midlands seeking advice on quality circles.

TECHNOLOGY

Advances that gave birth to the tiny tape

THE KEY to the higher performance and small size of the 8 mm format lies in recent advances in magnetic recording tape technology pioneered by Japan.

The 8 mm tape is less than two-thirds the width of the 12.5 mm tape used in VHS recorders and half the thickness. Because its running speed is also slightly slower than VHS — 2 cm a second compared with 2.3 cm a second — it allows longer recording times.

Yet picture quality is as good as VHS and even better when at half speed. Moreover, unlike VHS, 8 mm can record digitally encoded sound as well as pictures.

All this has been achieved by packing recorded information on to 8 mm tape almost twice as densely as on VHS. By coating the 8 mm tape with pure metal, instead of metal oxide, the size of the particles on which electronic signals are recorded has been reduced.

The signal wavelengths recorded on the tape have been reduced to microscopic proportions — well under one micron (millionth of a metre), or less than a fiftieth of the width of a human hair.

Space has also been saved by dispensing with the track of coded pulses running along the edge of VHS tapes, which keeps the rotating video heads in line with the video tracks. In 8 mm, the pulses are mixed with the video signal and decoded by a special controller on playback.

The video heads on 8 mm machines, as well as being smaller than those of a standard VHS format, must be able to handle a much stronger magnetic field. Two new types of material are used to make them.

One is sendust, a special alloy developed by Japanese researchers. The other is amorphous metal, produced by supercooling techniques which result in a non-crystalline molecular structure.

Making the heads and the many other miniature parts used in 8 mm has required the development of high-precision manufacturing techniques.

Most of the advances in tape technology used in the 8mm format could also be applied to VHS to achieve higher performance. However, JVC, inventor of the VHS format, is committed not to modify its design in ways which would render existing equipment obsolete.

New video format battle looms

Jason Crisp and Carla Rapoport on worries over the advent of 8mm tape

FOR TWO products no bigger than a pack of cigarettes, the 8mm videocassette and the digital tape (DAT) are causing an unusual amount of anxiety in the world consumer electronics industry.

Although scores of consumer electronics and camera companies worldwide have agreed standards for 8mm tape, there remains widespread uncertainty over its fate in the marketplace. The market is further confused by the likely arrival of DAT products later this year. The 8mm videocassette is already on the market as part of the new, pint-sized home video camera, called camcorders. DAT is an audio tape about threequarters the size of a conventional audio tape which offers high quality, digital sound, comparable in quality to compact discs. DAT is expected to be launched in Japan in September or October.

But despite its youth, the very mention of the word 8mm gives executives in many of Japan's largest consumer electronics companies the shivers. The reason is that the 8mm videocassette is more than a device for taping the family vacation.

A playback machine can be used as a standard VCR for recording television programmes and can match or better existing equipment for picture quality. In addition, high-price machines can be used to record sound on the 8mm cassette, each of which can store at least 18 hours of stereo music at very high quality levels.

As for DAT, which will require its own special player, its launch will force companies to compete with the compact *disc market,* which while growing rapidly, is far from mature.

Therefore a strong push for DAT could end up sabotaging compact disc sales as discs cannot be used for recording. So far, only about 10,000 compact disc titles are available, and many of the more popular ones are in short supply. Consumers seeking high quality sound might just skip CDs and go straight to DAT.

Mr Kyohei Kasama, deputy general manager of Hitachi's television, audio and video products division said: "It's a headache for our marketing people. We will have DAT format soon, but it is only sound. Will DAT be dismissed because 8mm can produce digital sound and take pictures? "Ideally, we'd like these products to grow up one by one, but that does not seem possible. *It is a severe situation for us.* We do not want to embarrass our customers by introducing 8mm so quickly.

A top executive in another major Japanese electronics group added: "If we start introducing new products every year, the customer will freeze and just wait to see next year's model. Maybe they won't buy a VCR or an audio machine at all."

The nervousness which surrounds 8mm and DAT is a result of the long and painful battle which finally established VHS as the dominant of the three incompatible formats for VCRs. Sony's very strong push for 8mm as both a camcorder and home VCR has unsettled its rivals. Even if they are sceptical about its future as a home machine they are still hedging their bets.

No one wants to miss a new bandwagon and all are acutely conscious that VCR revenues have passed their peak and 8mm could provide a stimulus to a rather depressed consumer electronics business.

That Battle of the formats for home VCRs was largely unproductive, confused consumers and cost companies like Philips dear. Now that Philip's V200 format is dead if not actually buried and Sony's rival system is ailing, attention is turning to 8mm. In spite of the impressive array of backers for 8mm, and a general concern not to repeat past mistakes, no less than four formats for video cameras — Beta movie, VHS (full size), VHS-C and 8mm—have appeared on the market.

If 8mm is even to be considered as a contender for the VCR market then it must first win the camcorder battle which is turning into a straight fight between Sony and JVC. Sony has thrown its considerable marketing and engineering skills behind 8mm while JVC, which developed VHS has been strenuously promoting VHS-C.

VHS-C is a small compact cassette used in the camcorder which can be played back on a conventional VHS machine when fitted with an adaptor.

This camcorder from JVC, announced last month, has for the time being stemmed the tide, which was clearly beginning to flow in the direction of 8 mm.

Until recently the only serious effort in 8 mm video was being made by Kodak in the US which recognises its threat to 8 mm film and by Sony in search of a replacement for Beta.

As for others, Hitachi says it will most likely make an 8 mm product by the year's end, but heavyweights such as Matsushita, Toshiba and Philips remain undecided.

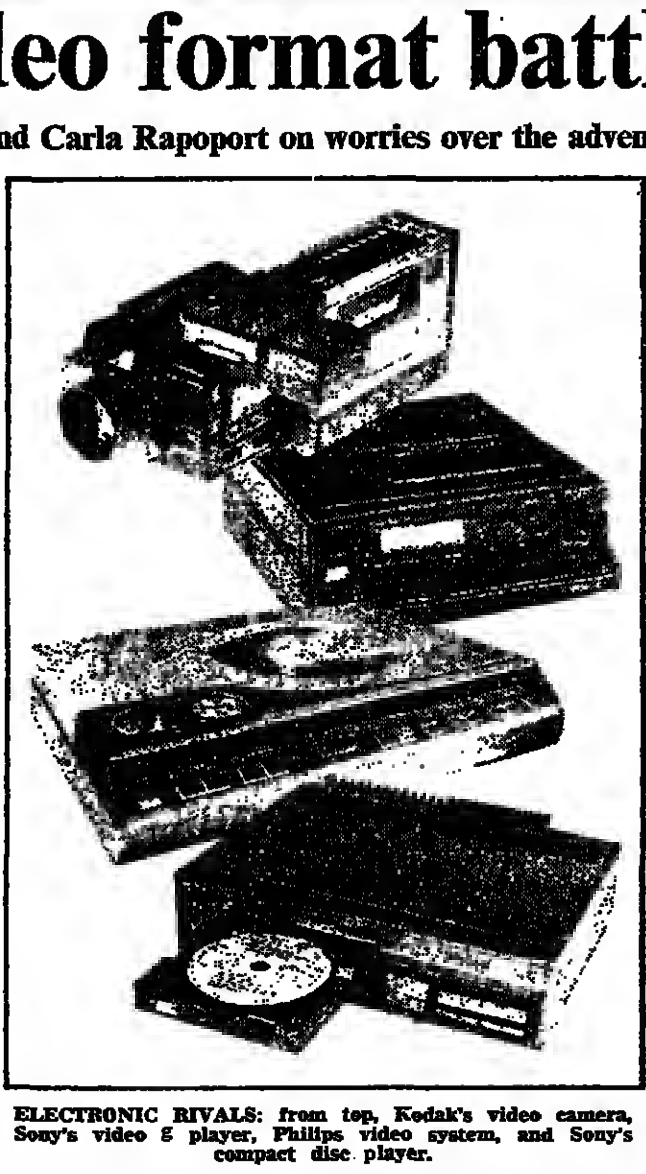
JVC is, not surprisingly, the most outspoken critic of 8 mm which, it says, is "egocentric" and "rude" to the millions of people who own VHS format videos.

At Sony's Tokyo offices, executives give the impression that they themselves are slightly overwhelmed by 8 mm's prospects. Mr Kiyoshi Yamakawa, senior general manager of the consumer video group, believes 8 mm will eventually replace the ½ in. VHS format for VCRs. "It can do so many different things, which make up for the drawback in *software.*"

With about 100m ½ in VCRs in the world, there is a huge library of pre-recorded material available which makes the established medium so much more attractive than 8 mm where there is practically none.

Neither 8 mm or DAT is likely to suffer a complete defeat, however. This year, the camcorder market is expected to hit 3m units, which in value terms makes it already worth nearly 25 per cent of the entire VCR market's annual sales. DAT is also expected to find a home, although probably at the expense of either compact disc or traditional audio tapes.

For the next few years, however, the industry's marketing skills will have to match their technology.



ELECTRONIC RIVALS: from top, Kodak's video camera, Sony's video 8 player, Philips video system, and Sony's compact disc player.

Novel chip is bonus for aircraft computers

DATA COMMUNICATIONS aircraft will be improved with a local area network (LAN) controller on a single chip, being developed jointly by Boeing and Nippon Electric Company (NEC).

The chip will become part of the Datac digital communications system for aircraft that Boeing has been developing for some years, working over copper or optical fibre cable.

It will link the many microcomputers and other digital systems in the modern airliner. The objectives are to increase transmission speeds, cut wiring weight and improve data reliability.

WORTH WATCHING

EDITED BY GEOFF CHARLISH

FLEXIBLE MACHINING will be in action in March at the Lucas Girling plant at Cumbran, Wales. The company is installing a computer-controlled flexible machining cell to machine castings for braking systems supplied to several European truck manufacturers.

Flexible manufacturing systems can deal with a variety of parts of the same general kind and size, without stopping the line for adjustments. Sip-Dixi of Newport Pagnall (0908 611460) will supply the Lucas system, which will use four Italian machine tools from MCM SpA of Piacenza and a computer control system from ECS SpA of Florence.

PERFECT SPHERES of plastic are being made by Dyno Particles of Lillestrom, Norway, without recourse to miniature factories in outer space.

Previously, zero gravity was thought to be essential to avoid distortion. A recent experiment in the space shuttle produced excellent balls, but the cost worked out at £7,000 a gram according to Dyno.

The spheres are highly valued by the makers of microscopes (where they are used for calibration), by manufacturers of analytical instruments and by liquid crystal makers.

The Norwegian company is making spheres at a lower, but undisclosed cost, by growing from very small seed particles, so that they all reach the same size and a perfect spherical shape. More from Norway on (47) 271 7001.

LAMB FAT might soon be powering diesel engines if a ten-month study by Perkins Engines in New Zealand successfully produces a blend of the fat with diesel oil.

With 3m people and a sheep population of 70m, New Zealand could produce enough of the alternative fuel to meet up to 10 per cent of its diesel needs.

It seems an average lamb carcase can produce 2kg of tallow, enough to make 2.24 litres of the alternative fuel. In the UK, Perkins is on 0733 67474.

OPTICAL SWITCHES which can direct the information on eight incoming optical fibres to any eight outgoing ones, have been developed by Ericsson in Sweden.

Made entirely from a 60 x 40mm piece of lithium niobate, the switch is claimed to be the most complex yet produced, "pointing the way to the all-optical telephone exchange."

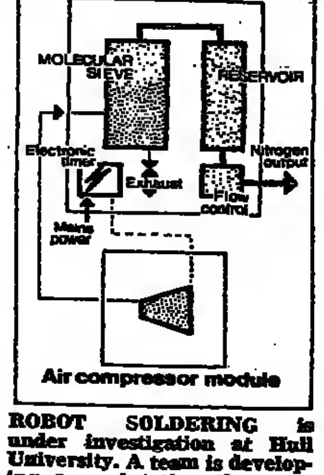
CONVEYOR ROLLERS with internal electric motor and drive gear are being introduced into the UK from Japan by Universal Conveyors of Leicester. The achievement lies in squeezing the roller's motive power into its own 57 mm diameter and a minimum length of 250 mm.

Each roller on a conveyor need not be powered. Those that are require only a three-phase electrical connection (the cable emerges axially from the end of the roller). The fact that there is no external drive system compensates for the increased cost of thet driven rollers.

Known as Power Mollers, the units allow easy extension of conveyor systems or modification of their paths. With no external drive to attract dirt, they are particularly suited to clean environments in the food, drink and pharmaceutical industries. Mr G. A. Jeyes on 0533 693485.

NITROGEN PRODUCTION from the air is a cost-effective alternative to the traditional way of supplying the high-pressure cylinders. Nitrox of Basildon (0628 286350) has developed a system using a carbon molecular "sieve" which physically traps the oxygen and passes 96 per cent pure nitrogen (4 per cent argon) at 300 millilitres per minute to a reservoir. The system needs only a mains electricity supply and works continuously, consuming under 100 watts to drive the input compressor.

Nitrogen generator



ROBOT SOLDERING is under investigation at Hull University. A team is developing a workstation that uses a robot and a laser to assemble surface-mounted components to printed circuit boards.

In conventional boards, the resistors, capacitors and chips have wire legs which pass through holes in the board to be soldered on the other side. In surface mounting, the components have pads on their undersides which are soldered directly to interconnection pattern.

The Hull approach gets round the problem of reflow soldering, in which solder on component and board is heated by raising the whole board assembly temperature, which is bad for the components.

Instead, an infrared laser on a robot positioning system heats only the solder areas.

INTERNATIONAL APPOINTMENTS

Extraordinary merger duo move up at First Boston

BY TERRY DODSWORTH IN NEW YORK

THE EXTRAORDINARY dealmaking duo that has turned First Boston, the New York investment bank, into one of the very top mergers and acquisition institutions on Wall Street, is to be given additional responsibilities. In a broad reorganisation, the two men, Mr Bruce Wasserstein and Mr Joseph Perella, are being put in charge of all client contacts in the investment banking division, while all the group's capital raising functions will be consolidated under Mr Anthony Grassi, formerly head of investment banking.

The reshuffle underscores the meteoric rise in First Boston's mergers and acquisition activity in recent years, while marking out Mr Wasserstein, 38, and Mr Perella, 44, as potential candidates to head First Boston in the future. Since the late 1970s, the two men have transformed tha group's mergers division from a sleepy adjunct of the bank into one of the leading departments of its kind on Wall Street, ranking alongside Morgan Stanley and Goldman Sachs.

Last year, in the busiest period of takeover activity ever in the US, First Boston claimed leadership in terms of its involvement in deals and total fees — indeed, in the top 10 transactions, it pulled in around $50m according to figures collated by Fortune magazine, around $10m more than Morgan Stanley, its closest rival. Mergers and acquisitions are estimated to have accounted for around a quarter of the bank's total revenues of about $890m in 1985.

On Wall Street, the reorganisation is seen as a move reflecting the importance of the merger and acquisition department in recent years in selling the overall services of the bank. Mr Wasserstein, whose ebullient styla attracted enormous personal publicity in the early 1980s, has recently adopted a lower pnblic profile. But be is known, along with Mr Perella, as an innovative corporate finance specialist who has transformed First Boston's merger activity partly by seeking out new clients. While the skill of the two men in pulling off tricky transactions has helped build up business, they have also shown how behind-the-scenes work in thinking up new ideas and selling them to potential clients can pull in additional fees.

In the rapid global expansion of the securities business, First Boston has already become a significant overseas player with its Euromarkets activity via its link with Credit Suisse. It has also been pursuing the internationalisation of its mergers and acquisition business through increasing contact with overseas companies—a similar strategy to that employed in the US The latest reorganisation seems both to reflect these moves towards a more international structure, and to encourage a further drive in the same direction.

Chairman of HNG/ Internorth

By Our Financial Staff

HNG/INTERNORTH, the US natural gas pipeline concern formed last year by the $2.3bn merger of Houston Natural Gas, of Texas, with Internorth, of Nebraska, has elected Mr Kenneth L. Lay, 43, its president and chief executive, to the additional post of chairman, in succession to Mr Willis A. Strauss, 63, who has retired from the board.

Mr Strauss, a former chairman of Internorth, became chairman of the merged concern in November, on the resignation of Mr Sam Segnar, the former chief executive of Internorth who initially took on the chief executive role at the new group. Mr Lay moved from the job of chief operating officer to that of chief executive at the same time.

The company last week reported a net loss of $14.1m for 1985, after taking a $182.6m loss in the fourth quarter arising from the nationalisation of its Peruvian operations and restructuring costs. Earnings from continuing operations, before the Peruvian charge, were $165.8m, against $268m the previous year, on revenues of $10.3bn against $7.3bn.

Managers at Westpac swap jobs

TWO OF THE senior managers of Westpac Banking Corporation of Australia have exchanged jobs. Mr Warwick G. Kent has been appointed chief general manager, corporate and international, in place of Mr Stuart Fowler, who takes over as chief general manager, retail financial services.

Sir Noel Foley, the chairman, says the aim of the move to broaden the executives' experience is to strengthen the bank in a "challenging and rapidly changing environment."

Thierry chairman of BBL

BANQUE BRUXELLES Lambert (BBL), Belgium's second largest bank, has elected Mr Jacques Thierry chairman of the board.

Mr Thierry, who has been BBL's president, succeeds Mr Andre Dequae, who is retiring. The BBL board also elected Mr Gerard Eskenazi as a director. Mr Eskenazi is vice-president of the executive committee of Groupe Bruxelles Lambert, the second largest bolding company in Belgium.

The changes were announced at last week's annual meeting, at which Mr Thierry described the outlook for BBL's earnings for the year ending September as "rather good." The bank's first-quarter results, be said, bad compared favourably with those for the corresponding period last year.

BBL made consolidated net profits for 1984-85 of BFr 2.16bn ($44.5m), up 39 per cent from BFr 1.56bn the previous year. Net profit of the BBL parent bank rose 36 per cent to BFr 1.72bn, from BFr 1.26bn.

BBL has announced a dividend, net of withholding tax, of BFr 100 per ordinary share on fiscal 1985 earnings, compared with BFr 95 the previous year.

LTV financial promotion

THE LTV Corporation, the second largest steelmaker in the US since its 1984 merger with Repnblic Steel, has announced the promotion of Mr James F. Powers to senior vice president, chief financial officer. He will continne to report to Mr James J. Paulos, executive vice president, who previously served as chief financial officer and who remains responsible for the areas of finance, planning and the company's divestiture programme. Mr Paulos has announced his decision to retire from the company by the end of 1986.

Mr Powers has been vice president and treasurer since 1983 and prior to that appointment had been vice president and controller since 1977.

LTV has interests apart from steelmaking in areas such as aerospace and oilfield equipment.

First National post

MR JAMES E. ANNABLE has been appointed chief economist and senior vice president of First National Bank of Chicago in succession to Mr Roy E. Moore. Mr Annable was chief domestic economist.

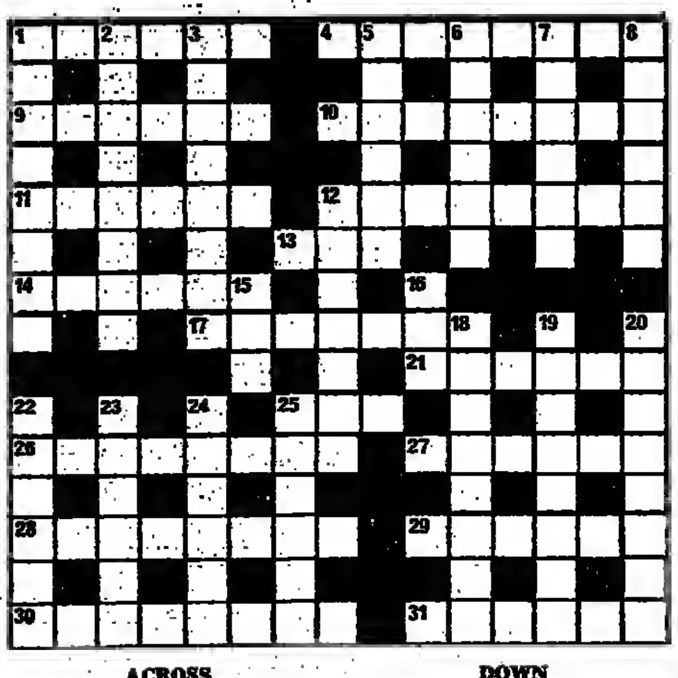
Mr Moor, 61 years old, had been chief economist since 1981 for First National, the lead bank of First Chicago Corporation, one of the largest ten or so bank holding companies in the US.

Dutch based head for Katalistiks

KATALISTIKS International, a wholly owned subsidiary of Union Carbide Corporation, the diversified US chemicals concern, has announced the appointment of Mr S. C. "Chuck" Johnson as managing director of Katalistiks, bv. In this position, Mr Johnson will be responsible for research, manufacturing and sales of fluid cracking catalysts for European, North African, and Middle Eastern markets from the company's Dutch headquarters in Leiderdorp.

The Katalistiks group supplies fluid cracking catalysts, catalyst supports and molecular sieves to world markets. It operates manufacturing facilities in Savannah, Georgia and at Delfziji in the Netherlands.

FT CROSSWORD PUZZLE No. 5,950



ACROSS

1 and 4 They're in charge of vessels (6-8)
9 Part of collar I attached goes round the neck (6)
10 No more goes. Hang ont to final whistle? (4, 4)
11 Ball could be. Actors should be (2, 4)
12 Fiddle order of course preparation? (4, 4)
13 Present sent back, got a prize? (3)
14 Bird allowed outside hotel (6)
17 If a rest is disturbed, a summer's day could be (3, 4)
21 Kind of ticket on the go (6)
25 A 13 in sound (3)
26 Taken by severe person having different row? (4, 4)
27 Clever people in bars getting drunk (6)
28 Hint—one, or something less (8)
29 Kind of sausage? Alas, I'm upset (6)
30 English people arrange meeting to make changes (8)
31 Earl's description is hurried (6)

DOWN

1 and 22 Kind of exam question for the select? (8, 6)
2 Tie-holder in part of neck producing a scratcb (8)
3 Comes out tame and sane, yet wild (8)
5 Model of excellence beheaded in N.E. Spain (6)
6 Ventilation shaft in a variety of teak (6)
7 Bookman tried changing to includa love (6)
8 and 20 Says what one means (6, 4, 4)
12 Prisoner gets penalty — to keep in (7)
15 Dry hay, man! (3)
16 Tree just short of the conflagration (3)
18 On the island one is included to bring back into existence (8)
19 The worker follows the drink in, contemplating (8)
20 see 8
22 see 1
23 A little sweet (6)
24 Large, sparkling, top of diamond dazzled (6)
25 Overhead round Sergeant Street? (6)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

APPOINTMENTS

Restructure at Tarmac

TARMAC has merged two of its divisions following the disposal of a number of businesses outside the group's mainstream activities. The new division is named building and industrial products division. Mr Peter Woodman, a main board director of Tarmac, hecomes chief executive, and Mr Sidney Beecham, deputy chief executive. Mr Woodman was chief execntive of the oil and industrial division. Mr Beecham was chief executiva of the huilding products division.

★

Mr Jeremy Denton-Clark has been appointed managing director of CITY MERCHANTS BANK. He was with London Interstate Bank.

★

Mr Colin Sewell has joined SBJ & ASSOCIATES (LIFE & PENSIONS) as an associate director. He was a director of Wigham Poland Employee Benefits.

★

CIBC, merchant banking arm of Canadian Imperial Bank of Commerce, has appointed Mr Freddie Bamber and Mr Richard Eagle as associate directors, Eurobond sales.

★

Mr E. L. (Bill) Johnson Jr has been appointed general manager producing operations for TEXACO in the UK. He joins from Quito, Ecuador, where he was assistant manager for Texaco's operations in that country.

★

Mr Bert Willow has been appointed production director at WAKEFIELD STORAGE HANDLING, Nottingham. He was partitioning division manager.

★

L. MESSEL & CO, stockbrokers, has appointed Mr Peter Barton, a City solicitor, as joint head of its corporate finance division with Mr Giles Coode-Adams. In April Messel will become part of Shearson Lehmao and American Express. Mr Barton is currently a senior partner with Travers Smith Braithwaite.

★

Mr Simon R. Arnold, deputy chairman and group chief executive of Bain Dawes has been elected chairman of the LLOYD'S INSURANCE BROKERS' COMMITTEE. Mr Alan Colls, chairman of Stewart Wrightson International Group and Mr Michael Jenner, chairman of Jenner Fenton Slade have been elected deputy chairmen.

★

Mr Christopher Chataway, vice-chairman of Orioo Royal Bank, has been appointed a director and as chairman of six investment companies managed by THE ROYAL BANK OF CANADA through its Channel Island subsidiary in Guernsey.

★

Mr D. H. L. Hopkinson and Dr S. R. Dennison have been appointed deputy chairmen of ENGLISH CHINA CLAYS.

★

Mr Nigel Spackman, previously managing director of Research Surveys of Great Britain, has been appointed managing director of AGB SURVEYS. Mr Graham Read replaces Mr Spackman as managing director of RSGB. Mr Derek Mesure joins the RSGB board as product research director. He was previously managing director of Survey Research Singapore—a member of the AGB Group. Mr John Campbell has been appointed managing director of Irish TAM and Attwood Research of Ireland. Mr Campbell was previously general manager of Cognotec Systems, and managing director of Rank Xerox (Ireland).

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

CONTINUED OVERLEAF

AUTHORISED UNIT TRUSTS & INSURANCES

Oppenheimer Fund Mngt Ltd
66 Cannon St, London EC4N 6AE — Dlg. 01-236 3885

International Growth	121.3	129.8xd	-1.0	1.00
Income & Growth	49.0	52.1	+0.5	2.90
Special Situations	69.4	74.3		2.10
American Growth	32.1	34.4		3.10
Japan Growth	41.0	43.6	+0.2	0.00
European Growth	52.8	56.1xd		2.90
UK Growth	47.2	48.5	+0.4	1.30
Pacific Growth	35.6	38.1	+0.2	0.40
High Income	29.2	31.3		8.10
Practical Income Units	46.6	49.6	+0.3	2.40
Practical Accum. Units	83.8	89.2	+0.6	2.40

Pearl Trust Managers Ltd (a)(g)
252 High Holborn, WC1V 7EB — 01-405 8441

Pearl Growth Fd.	78.1	83.1	+0.2	2.74
Accum Units	115.4	122.9	+0.2	2.74
Pearl Inc.	105.5	113.2	+0.2	4.48
Pearl Unit Tst	111.0	118.1	+0.2	3.53
(Accum. Units)	190.2	202.3	+0.4	3.53
Pearl Intl Equity	109.5	116.5	-0.1	1.72
(Accum Units)	109.6	116.6		1.77

Perpetual Unit Trust Mngmt. (a)
48 Hart Street, Henley on Thames — 0491 576868

International Growth	235.6	252.8	(z)	1.29
Income	166.1	177.9	(z)	5.22
Worldwide Recovery	132.6	142.3	(z)	2.96
American Growth	66.2	71.1	(z)	1.01
Intl Emerging Cos.	71.4	76.7	(z)	0.67
Far East Growth Fd	57.0	62.1	(z)	1.11
European Growth Fd	48.5	52.1	(z)	2.0

Prolific Unit Trusts
222 Bishopsgate, London EC2 — 01-247 7544/7

Prolific American Inc	53.1	56.5xd	+0.6	4.85
Prolific Far East	127.8	137.4	+1.6	0.10
Prolific Extra Inc.	72.1	77.5	+0.4	3.46
Prolific C'wrr & Gilt	84.7	89.8xd	+0.3	3.97
Prolific High Inc	155.0	165.2	+0.6	4.38
Prolific Intl	95.5	102.7	+0.8	1.56
Prolific N. Amer.	148.9	140.8	+0.6	2.11
Prolific Spec. Sits	174.5	185.1	+0.1	1.80
Prolific Technology	110.7	119.0	+0.1	0.55

Providence Capital Fd. Mgrs. Ltd
30 Uxbridge Road, London W12 8PG — 01-349 9111

Japan Inc	60.8	64.7	+0.1	0.00
Japan Acc.	60.9	64.8		0.00
Worldwide Inc.	61.6	60.5	+0.1	1.49
Worldwide Acc.	62.2	66.2	+0.1	1.49
European 1st Inc.	75.4	80.3	+0.3	0.66
European 1st Acc.	75.7	80.6	-0.3	0.66
North American Inc.	53.6	57.1xd	+0.1	1.71
North American Acc.	54.3	57.8	+0.1	1.77
UK Equity Inc	57.1	61.4	+0.3	2.64
UK Equity Acc	59.0	62.8	+0.2	2.64

Provident Mutual Unit Trust Managers Ltd.
25-31 Moorgate, London EC2R 6BA. — 01-588 3963

PM Equity Growth	50.3	53.8	+0.9	2.30
PM Income and Growth	49.9	53.4	+0.6	5.17

Prudential Unit Trust Mngrs Ltd (a) (b) (c)
51-59 Ilford Hill, Ilford, Essex IG1 2DL — 01-478 3377

Holborn Comm Trust	50.7	53.9	+0.1	0.90
Holborn Equity Tst	362.5	385.4	+0.8	3.48
Holborn European Trust	71.2	75.7	-0.7	0.96
Holborn Gilt Tst	160.4	167.0		6.76
Holborn High Inc.	58.7	62.4	+0.3	6.94
Holborn Intl Growth	82.8	88.0xd	+0.1	0.78
Holborn Japanese Trust	67.0	71.2	+0.4	0.05
Holborn N. Amer. Trust	61.8	65.7	+0.4	1.54
Holborn Spec Sits	45.3	48.4	+0.5	2.74
Holborn UK Growth	72.5	77.1xd	+0.3	3.16

Quilter Management Co Ltd
31-45 Gresham Street, London EC2 — 01-600 9177

Quadrant Gen. Fd.	375.3	399.3	+4.8	3.29
Quadrant Income	205.1	218.2xd	+4.9	6.12
Quadrant Intl. Fund	347.4	365.7		1.21
Quadrant Spec. Sits.	228.7	243.3	+5.4	3.06

Reed Stenhouse Inv Services Ltd
145 Borough High St, London SE1 1NV — 01-628 6013

Wellington Inc.	58.4	62.2xd		5.60

Stewart Ivory Unit Trust Mgrs Ltd (a)
45 Charlotte Sq, Edinburgh — 031-226 3271

American Fund	209.7	223.3	+0.6	2.15
(Accum. Units)	235.5	250.8	+0.7	2.15
(Withdrawal Units)	151.8	161.7	+0.4	2.15
Australian Fund	114.3	121.7	+3.3	0.94
(Accum. Units)	115.6	123.0	+1.3	0.94
British Fund	512.6	545.9	+1.1	4.48
(Accum. Units)	682.3	726.6	+1.4	4.48
European Fund	235.7	251.0	-2.3	0.97
(Accum. Units)	248.2	264.3	-2.5	0.97
Japan Fund	242.9	258.7	+0.7	0.38
(Accum. Units)	243.6	259.5	+0.7	0.38
Savers PPP	143.6	151.2		—

Sun Alliance Fund Management Ltd
Sun Alliance House, Horsham — 0403 56293

Equity Tst	349.0	372.1	+1.0	2.66
North America	54.6	58.0	+0.2	1.76
Far East	61.5	65.2	+0.7	0.68

Sun Life Trust Mngmt. Ltd
107 Cheapside, London EC2V 6DU — 01-606 6010

American Growth Acc.	27.9	29.7xd	+0.1	1.7
American Income Acc.	27.7	29.5xd	+0.2	4.2
American Income Inc.	27.4	29.2xd	+0.2	4.3
European Growth Acc.	42.5	43.2	-0.8	1.90
Far East Growth Acc.	31.7	33.7	+0.2	0.7
Int. Growth Acc.	29.6	31.5	+0.3	0.8
Japan Growth Acc.	38.9	41.4xd	+0.3	0.3
UK Growth Acc.	31.9	31.9xd	+0.2	2.2
UK Income Acc.	28.4	30.2xd	+0.1	4.1
UK Income Inc.	27.7	29.5xd	+0.1	4.2
Managed Growth Acc.	34.1	36.3	-0.1	2.1
Managed High Yield Inc	32.6	34.7xd		6.8
Managed Income Inc.	29.1	31.0	-0.1	4.0

Swiss Life Pen. Tst. Man. Co Ltd (a)(c)
99-101 London Rd, Sevenoaks — 0732 450161

Equity Dist.*	241.9	255.9		3.84
Equity Acc.*	291.0	307.9		3.84
Fixed Int. Dist.†	112.8	116.8		13.58
Fixed Int. Acc.†	165.4	171.3		13.58

*Prices on Feb 12. Next dealing Mar 12
†Prices on Feb 5. Next dealing March 5

TSB Unit Trusts (b) (c) (y)
PO Box 3, Keens House, Andover, Hants SP10 1PG
0264 62188 — Dealings to 0264 63432-3

TSB American	108.1	115.0	+0.1	1.09
Do. Accum.	112.5	119.7	+0.1	1.09
TSB Extra Income	95.5	101.6xd	-0.1	3.98
Do. Accum.	111.6	118.8	+0.6	5.80
TSB General	142.3	151.4xd	+0.2	2.89
Do. Accum.	231.6	246.4	+0.6	2.89
TSB Gilt & Fxd Int.	45.9	47.9xd	+0.3	9.30
Do. Accum.	58.8	61.3	+0.4	9.30
TSB Income	190.3	202.5	+0.5	4.65
Do. Accum.	292.0	310.7	+0.8	4.65
TSB Pacific	122.5	130.4	+1.2	0.73
Do. Accum.	125.5	133.6	+1.1	0.73
TSB International	268.4	285.6		1.86
Do. Accum.	329.4	350.5	-0.1	1.86
TSB Natural Resources	43.0	46.6		2.51
Do. Accum.	44.7	47.6		2.51
TSB Select. Opps.	53.6	[illegible]	+0.5	1.91
Do. Accum.	58.3	[illegible]	+0.5	1.91

3i Unit Trust Managers Ltd
2 St Mary Axe, London EC3A 8BP — 01-928 3356

Small Co's Fund	67.6	71.9	-0.3	0.1

Target Trust Mngrs. Ltd (a)(g)
Target Hse, Gatehouse Rd, Aylesbury Bks — (0296) 5941

American Eagle	73.2	78.3	+0.7	0.44
Australia	20.7	22.1xd	+0.1	0.10
Commodity	73.0	78.4	-0.4	2.25
Energy	33.4	35.7xd	-0.3	1.52
Equity	113.3	121.9	+0.3	3.01
European Spec. Sits.	82.1	87.1	+0.8	0.28
Extra Income	100.7	107.9xd	-2.2	6.40
Financial	230.7	246.9	+0.6	2.04
Gilt Income	96.4	101.2xd	-1.6	8.82
Gold Income	57.7	61.8	-1.7	2.01
Gold Acc.	105.1	112.5	-3.2	2.01
Income	73.3	78.4	-0.2	4.91
Japan	62.7	67.1	+1.0	0.10
Malaysia & Singapore	19.0	20.3	-0.3	1.38
Pacific Income	71.1	76.0	-0.1	0.09

INSURANCES

هكذا من الأصل

INSURANCE, OVERSEAS & MONEY FUNDS

OFFSHORE AND OVERSEAS

World Fund S.A.
2 Boulevard Royal, Luxembourg
World Fund NAV ... $15.10 ... +0.11

World Wide Growth Management
10a, Boulevard Royal, Luxembourg
Worldwide Gth Fd ... $15.11 ... +0.03

Yamaichi Dynamic Mngt Co SA
10A Boulevard Royal Luxembourg
Advanced Tech ... $11.52 ... +0.21
Dynamic Gwth Fd ... $12.72 ... +0.25

Zero Bond Fund Limited
PO Box 208, St Peter Port, Guernsey 0481 26268
Zero Bond Fund ... $10.69 11.35

Money Market Trust Funds

	Gross	Net	Gr Equiv CAR	Int Cr
The Charities Deposit Fund 77 London Wall, London EC2N 1DB 01-588 1815				
Deposit	12.15			3-Mth
The Money Market Trust 63 Qn Victoria St EC4N 4ST 01-236 0952				
Call Fnd	12.47	9.78	13.62	6mth
7-day Fnd	12.35	4.79	13.55	6mth
Oppenheimer Money Management Ltd 66 Cannon St, EC4N 6AE 01-236 1425				
Call Fnd	12.25	9.16		
7-day Fund	12.36	4.29		
Dollar	6.15			

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int Cr
Adam & Co. plc 22 Charlotte Sq, Edinburgh EH2 4DF 031-225 8484				
1st Service Car Acc.	11.10	8.50	12.58	Qtr
Aitken Hume 30 City Road, EC1Y 2AY 01-638 6070				
Treasury Acc	11.75	8.78	12.97	Qtr
Mnt Int Chq	11.75	8.78	13.06	Mth
Allied Arab Bank Ltd 97-101 Cannon St, London EC4N 5AD 01-283 9111				
HIBCA	13.00	9.72	14.52	Mth
Bank of Scotland 38 Threadneedle St, EC2P 2EN. 01 628 8060				
Money Mkt Cheque Acc	12.15	9.00	13.53	Mth
Barclays Prime Account PO Box 125, Northampton 0604 252891				
High Int Cheque	12.25	9.125	13.49	Qtr
Britannia Investment Services Ltd. 74-78 Finsbury Pavement, EC2A 1JD. 01-588 2777				
Cater Allen	12.00	0.971	13.3544	Mth
Charterhouse Japhet plc 1 Paternoster Row, EC4M 7DH. 01-248 3999				
Sterling	12.00	0.96	13.35	Mth
U.S. Dollar	7.25	7.25	7.50	Mth
German Mark	4.25	4.25	4.33	Mth
Swiss Francs	1.50	1.50	1.51	Mth
Japanese Yen	5.00	5.00	5.12	Mth

Citibank Savings

NOTES

... Only available to charitable bodies. Yield column shows annualised rates of NAV increase ... dividend.

TRADITIONAL OPTIONS
3-month call rates

Industrials	p		
Allied-Lyons	28	Marks & Spencer	13
BAT	26	Metal Closures	14
BOC Grp	27	Midland Bk.	35
BSR	8	NEI	10
BTR	33	Nat West Bk	55
Babcock	13	P & O Dfd	35
Barclays	33	Plessey	14
Beecham	30	Polly Peck	21
Blue Circle	50	Racal Elect.	13
Boots	18	RHM	12
Bowaters	30	Rank Org Ord.	35
Brit Aerospace	32	Reed Intnl	60
Brit. Telecom	17	Sears	11
Brown (J.)	3½	TI	35
Burton Ord	45	Tesco	24
Cadburys	13	Thorn EMI	34
Charter Cons.	18	Trust Houses	12
Comm Union	23	Turner Newall	9½
Courtaulds	13	Unilever	90
Distillers	36	Vickers	35
FNFC	12	**Property**	
Gen Accident	55	Brit Land	14
Gen Electric	14	Land Secs.	26
Glaxo	100	MEPC	26
Grand Met	30	Peachey	24
GUS 'A'	70	Samuel Props	13
Guardian	60	**Oils**	
GKN	20	Brit. Oil & Min.	3½
Hanson Tst.	18	Brit Petroleum	45
Hawker Sidd.	36	Burmah Oil	27
ICI	42	Charterhall	4
'Imps'	16	Premier	5
Jaguar	27	Shell	55
Ladbroke	27	Tricentrol	18
Legal & Gen	60	Ultramar	18
Lex Service	24	**Mines**	
Lloyds Bank	35	Cons Gold	40
Lucas Inds	38	Lonrho	12
		Rio T Zinc	50

A selection of Options traded is given on the London Stock Exchange Report Page.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
11Oct	11Apr	Treas. 10pcCnv 1986	99	4.9	[illegible]	12.45
19 Nov	19 May	Treas 3pc 1986	97	14.10	[illegible]	12.51
19 Nov	19 May	Exch. 10½pc 1986	99	14.10	10.5[illegible]	12.67
12Dec	12Jun	Treas 12pc 1986	99	5.11	[illegible]	12.40
10 Jan	10 Jul	Treas 8¾pc 1984-86‡‡	98	4.12	[illegible]	12.16
29 Apr	29 Oct	Exch. 14pc 1986	100	23.9	[illegible]	12.41
21 May	21 Nov	Exch. 2½pc 1986	95¼	15.10	2.6[illegible]	8.36
22Jul	22Jan	Exch. 13¼pc 1987	100	16.12	[illegible]	12.18
10 Aug	10 Feb	Treas 10½pcCv '87	98	6.1	10.4[illegible]	12.19
24Aug	24Feb	Exch 2½pc 1987	90xd	20.1	[illegible]	8.79
6Oct	6Apr	Exch. 10½pc 1987	98	2.9	10.[illegible]	12.15
1 Nov	1 May	Funding 6½pc '85-87‡‡	95	25.9	[illegible]	11.04
12Dec	12Jun	Treas. 10pc 1987	97	5.11	10.[illegible]	12.01
14Jan	14Jly	Treas 3pc 1987	92	9.12	3.[illegible]	9.10
3May	3Nov	Treas. 12pc 1987	100	27.9	11.[illegible]	11.86
25 Jul	26 Jan	Treas 7¾pc 1985-88‡‡	94	20.12	[illegible]	12.04
10Nov	10May	Exch 10½pc '88	97	4.10	10.[illegible]	11.59
14Dec	14Jun	Treas 9½pc Cv '88	96	7.11	10.[illegible]	15.58
1Jan	1Jul	Transport 3pc '78-88	87	25.11	3.[illegible]	8.91
25 Apr	25 Oct	Treas. 9½pc '88	95	18.9	9.[illegible]	11.67
22 Aug	22 Feb	Treas 12½pc 1989	99xd	16.1	[illegible]	12.56
10 Oct	10 Apr	Treas 9½pc Cnv. '89	94	11.9	[illegible]	11.58
15Nov	15May	Treas 3pc 1989	83	9.10	[illegible]	8.90
14Dec	14Jun	Treas 10½pc 1989	97	7.11	[illegible]	11.50
1Feb	1Aug	Exch 10pc 1989	95	27.12	10.[illegible]	11.53
29 Mar	29 Sep	Exch 11pc 1989	98	23.8	11.18	11.54
15 Apr	15 Oct	Treas 5pc 1986-89	85	9.9	5.85	9.80
15 May	15 Nov	Exch 10½pcCv '89	96	—	10.59	11.29
15 Jul	15 Jan	Treas 13pc 1990‡‡	104	9.12	12.40	11.40
12 Aug	12 Feb	Exch 11pc 1990‡‡	98	6.1	11.16	11.40
22 Sep	22 Mar	Exch. 12½pc 1990	103xd	13.2	12.08	12.42
8 Nov	8 May	Treas. 3pc 1990	80	2.10	3.74	0.73
15 Dec	15 Jun	Treas 8¼pc 1987-90‡‡	90	8.11	9.12	11.06
25 Apr	25 Oct	Treas. 10pcCv 1990	94	18.9	10.55	11.44
22 May	22 Nov	Exch 2½pc 1990	77	—	3.24	8.44

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Cont.

Dividends Paid	Stock	Price £	Last xd
Mar Jun S D	Beth Steel $8	13	4.11
Oc Ja Ap Jy	Bowater Inc.	19	25.11
Ja Ap Jly O	Brown'g-Fer. 16⅔c	25	17.9
F My Au N	Brunswick Corpn.	37	14.1
Jan Au Jly O	CPC Intnl. 25c	38	25.9
Mr Ju Se De	CSX Corp U.S.$1.00	24	22.11
Mr Je Sp Dc	CalFed Inc $1.00	22xd	11.2
Oc Ja Au Jy	Campbell Soup 30c	34	6.1
F My Au N	Caterpillar Tractor	35	16.10
Jn Ap Jy Oc	Cenergy Corp. 25c	389p	30.8
Fb.My.Ag.Nv	Chase M'htn $12.5	53	28.1
Ap Jy Oc Ja	Chemical New York	31	10.12
Mar Jun S D	Chesebrough-Pond's $1	28	26.11
Mar Jun S D	Chrysler $6¼	37	12.6
My Au N F	Citicorp $4	35	24.12
Fb My Au Nv	CityFed Fin. Corp.	914p	30.12
F My Au N	Colgate-P. $1	23	22.10
Mr.Ju.Se.De.	Colt Inds. $1	40	30.12
—	Cons Freightways $0.625	38	4.2
—	Cont'l Illinois Corp $1	678p	—
—	Cont Illinois Hldgs $1	79p	3'84
—	Corporate Data Scnc.	54p	—
Jn Ap Jy Oc	Crown Zell. $5	31	5.12
—	Cullinet Sftwr $0.1	10	—
—	Damson Oil 40c	176p	—
Mar Jun S D	Dana Corp. $1	22	25.11
—	Data General	31	—
—	Derma-Lock Medicl	23p	—
Mr Ja Sp Dc	Dun & Bradstreet $1	66	15.11
F My Au N	Eaton Corpn. 50c	98	29.1
Mar Jun S D	Exxon	36	7.12
MrJnSepDec	FPL Group $0.01	28	25.11
F May Au N	Fst. Corpn. Amer. 50c	793p	25.6
Jan Apr Jly O	First Chicago $5	19	3.12
Mar Jun S D	Ford Motor $1	49	27.1
Mar Jun S D	GATX 62½c	27	22.11

CANADIANS

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DRAPERY & STORES—Cont.

ELECTRICALS

ENGINEERING

ENGINEERING—Continued

FOOD, GROCERIES, ETC.

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

هكذا اصل الأصل

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
—		♥Pekart Res NL	12	—	—	—	—
—		♥Portman Mining	12	—	—	—	—
—		♥Queen Margaret Gold	13½	—	—	—	—
October		♥Renison 50c	257	13.9	Q10c	1.1	2.0
—		♥Samson Expl'n. NL	7½	—	—	—	—
—		♥Sons Gwalia NL	170	—	Q16c	♦	4.9
—		♥Sthn. Goldfields	10½	—	—	—	—
—		♥Southern Pacific	8½	—	—	—	—
—		♥Southern Res	72	—	—	—	—
—		♥Southern Ventures 25c	4	—	—	—	—
—		♥Spargos Expl'n	17	—	—	—	—
—		♥Swan Res 20c	8	—	—	—	—
—		♥Thames Mining A$0.25	17½	—	—	—	—
—		♥Utd Goldfields NL	45	—	—	—	—
—		♥West Coast 25c	16½	—	—	—	—
—		♥Western Contl 25c	9	—	—	—	—
May	Dec	Westn. Mining 50c	166	21.10	†06c	0.7	1.9
—		♥Whim Creek 20c	106	—	Q5c	4.1	2.5
—		♥Windsor Res NL	30	—	—	—	—
—		♥York Resources	6½	—	—	—	—

Tins

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
Apr.	Nov.	Ayer Hitam $M1	270	25.11	♦Q15.5c	1.5	26.8
July		Geevor	64	17.6	‡12.0	1.9	‡
Jan	Sept	Gopeng Berhad M$0.50	60	2.9	g$0.16	♦	9.6
—		Hongkong	650d	6.81	—	—	—
May		Jantar 12½p	19	15.4	2.5	♦	18.8
Dec	Aug	Malaysia Mng 10c	24	11.11	♦vQ6c	2.4	‡
—		♥Pahang	17#	—	—	—	—
—		Pengkalen 10p	175	4.83	—	—	—
December		Petaling $M1	120	25.11	vQ60c	♦	14.7
September		Sungei Besi $M1	125	12.8	♦vQ43c	—	‡
—		Tanjong 15p	150	6.81	—	—	—
Sept.	Mar.	♥Tongkah N. Tin $M1	130	21.5	vQ23c	1.2	6.4
Oct	July	Tronoh $M1	120	2.9	♦vQ6c	1.1	15.7

Miscellaneous

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
—		Anglo-Dominion	30	—	—	—	—
—		Anglo Utd Dev.	34	—	d1.05	♦	4.4
—		♥Colby Res Corp.	67	—	—	—	—
Aug.	Feb	Cons. Murch. 10c	225	13.1	‡Q6½c	3.9	‡
—		♣Emess Ind. Ir10p	29	—	—	—	—
—		Greenwich Res.	77	—	—	—	—
Apr	Oct	Hampton Areas 10p	122	23.12	3.75	0.9	4.1
—		♥Highwood Res	240	—	—	—	—
Fb Jn Ag Nv		Homestake Mining $1	£16½	30.1	Q20c	—	0.9
—		♥McFinley Red Lake	200	—	—	—	—
—		♥Musto Explorations	250	—	—	—	—
—		♥New Sabina Res C$1	42	—	—	—	—
—		Northgate C$1	215	9.77	—	—	—
Jan.	July	RTZ	567	28.10	†20.0	2.8	5.0
Jan	July	Do. 9½pc Ln '95-2000	£123½	28.10	Q9½%	14.0	7.8
—		♥Tara Exptn $1	950	—	—	—	—

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution, this compares gross dividend costs to profit after taxation excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ♥ Not officially UK listed, dealings permitted under Rule 535(4)(a).
- ♣ USM, not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue, cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♠ Same interim, reduced final and/or reduced earnings indicated.
- ♦ Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ¶ No par value.

B Fr. Belgian Francs. Fr. French Francs. ♦♦ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend, cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1984-85. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Figures based on prospectus or official estimates for 1984. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	102		Fin. 13% 97/02	£110⅞	+1⅛
Craig & Rose £1	950		Arnotts	237	+4
Finlay Pkg. 5p	45		CPI Hldgs.	55	
Holt (Jos) 25p	720		Carrol Inds.	155	+11
IoM Stm. £1	57		Dublin Gas	52	
			Hall (R. & H.)	61	−1
IRISH			Heiton Hldgs.	26	+½
Fund 11¾% 1988	£98¼		Irish Ropes	53	
Nat. 9¾% 84/89	£95¼		Unidare	120	−10

"Recent Issues" and "Rights" Page 18 (International Edition Page 24)

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £875 per annum for each security.

CONSTRUCTION

Glasgow centre project starts

Following the appointment of SIR ROBERT McALPINE MANAGEMENT CONTRACTORS, work has started on the £45m St Enoch Square Development in the heart of the City of Glasgow.

The 23,400 sq metre multi-storey shopping complex, being developed jointly by the Church Commissioners and Sears Holdings, will include a department store, 50 shop units, a fast-food court and restaurant, and an ice rink, all enclosed within a glazed structure rising 34 metres above the shopping malls. The development will also provide parking for 750 cars.

Currently used as open car parking, the site stretches from St Enoch Square on the west to Stockwell Street in the east and is bounded on the north by Argyle Street and on the south by Howard Street. The existing Lewis's store on Argyle Street which is owned by Sears Holdings will be incorporated in the new scheme.

Preliminary works to prepare the site have begun with the revision of the car parking layout and the building of a bus link. This work will be followed by sewer diversion, the removal of old foundations and bulk excavation to allow the main works to start in mid-May with the piling for the foundations.

The main contract will follow, comprising the foundations, basement and podium slab to ground level. This will form the main shopping mall and will involve placing around 19,00 cu metres of concrete.

Construction of the multi-storey car park on 13 half levels and the tubular steel trusses for the glazed enclosure will comprise the next phase. A modified patent glazing system with silicone sealed joints will clad the steelwork (an area of about 20,000 sq metres) to give all-year-round weather protection over the whole scheme. The project is due for completion by spring 1989.

The main contractor has not yet been appointed.

New home for sailors

A £17.9m contract for an 1,100 bed naval accommodation complex with recreational and dining facilities, at Portland, Dorset, has been awarded to JOHN MOWLEM & CO by the Property Services Agency.

The project consists of two buildings (34,000 sq metres) to provide a senior ratings mess and a wardroom on the Hary site at HMS Osprey, a dockyard and naval helicopter airstation. Up to nine storeys high, the two buildings will have insitu concrete frames with a tunnel form for the cabin (bedroom) construction. Another unusual feature will be the hanging steel and concrete floors which will provide service voids below the podium level slabs.

Cladding will be pre-cast panels faced with Cornish granite for the lower levels and pink Shap granite for the upper levels. Windows will be aluminium-framed and both buildings will have an unusual pitched steel roof.

Landscaping is an extensive part of the project and includes a tiered car park for 403 cars, circular grass plateau areas and palisade fencing as well as planted and paved areas, fire access roads and extensive retaining walls.

Work on the wardroom has started and the senior ratings mess is due to commence in early March. Project completion is due in May 1988.

*

R. DURTNELL & SONS has been awarded a variety of contracts totalling over £5.5m for refurbishment, new build, repair, maintenance and minor works. Major elements of this total are for the reconstruction of the main building at Abbey Wood Station for British Rail, Southern Region (£499,000); erection of 28 aged persons flats with warden and communal facilities at Sunninghill, Berkshire (£856,000); extensions and alterations to the Stanmore Tertiary College, Harrow (£1.4m); construction of new quartermaster stores for the Royal Army Medical Corps at Mytchett, Surrey (£1m).

£25m Legal & General office

Construction work has started on a new office building for Legal and General Assurance Society in Kingswood, Surrey. Under a £25m contract, TAYLOR WOODROW MANAGEMENT CONTRACTING is managing the construction of the 26,000 sq metres (280,000 sq ft) block. The project also entails the demolition of the neighbouring 18,000 sq metre (190,000 sq ft) office building plus refurbishment and extension of a separate training centre, construction of new sports buildings and playing fields and extensive landscaping. The new building, which will initially be constructed alongside the existing one, will be low rise in keeping with the predominantly residential character of the neighbourhood. Arup Associates are the architects, engineers and quantity surveyors.

BBC Bristol office complex

Contracts valued in excess of £14m have been awarded to R. M. DOUGLAS CONSTRUCTION. Work has started on a 30-month contract valued at £5.5m to build three interconnecting office blocks totalling 6,000 sq metres forming new offices, technical areas, restaurant and club for the BBC Network Production Centre in Bristol. In London, a £2m contract to be completed before Christmas has been won for the refurbishment of ABC News Television Studios in Carburton Street. In the north-east work has started on a £3m 34-week design and build contract to extend the warehouse facility of Argos Distributors in Castleford, 14 workshop units for English Industrial Estates at Chilton, Co Durham, and two three-storey staff accommodation blocks at Hartlepool Hospital. The City of Birmingham has awarded a 42-week contract of £694,000 to build industrial units for the motor trade. In Cambridge, a contract to build 27 flats for £654,000 has been awarded by the Cambridge Housing Society.

East Midlands airport hotel

CONSOLIDATED TERN INVESTMENTS has won contracts worth £15m. They include a design and build contract for a £3m hotel at the East Midlands International Airport, a prestige office block in Swindon, McDonald's hamburger stores at Milton Keynes and Maidstone, and new car showrooms for Mercedes, Porsche and Nissan agents. The group already has under construction a £5.6m police headquarters in South Wales, the refurbishment of the public areas of the 900-bedroom Forum International Hotel in London and a DIY store at Eastbourne.

Contracts and Tenders

YEMEN ARAB REPUBLIC
YEMEN GENERAL ELECTRICITY CORPORATION
URBAN ELECTRIFICATION CONSULTANCY SERVICES
CONTRACT YEM 203
INVITATION FOR PRE QUALIFICATION

The Government of the Yemen Arab Republic is negotiating for credits from:

i. the Kuwait Fund for Arab Economic Development, and other agencies relating to Earthquake Rehabilitation/Electrification in the Dhamar area of YAR which was struck by an earthquake in December 1982;

ii. the International Development Association, the Arab Fund for Economic and Social Development, the Islamic Development Bank and the Swedish Agency for International Technical and Economic Co-operation relating to the Fourth Power Project for urban and rural electrification in YAR.

The combined value of the above two programmes will be approximately 120 million US dollars.

GENERAL DESCRIPTION OF THE CONSULTANCY

The Yemen General Electricity Corporation is in process of issuing tender documents for the works involved (see below) and now invites the interest of international Consulting Engineers to assist in bid evaluation and to then undertake the subsequent supervision of the contract works.

SCOPE OF THE CONTRACT WORKS

These will be advised in the Tender Documents shortly to be available. The broad programmes envisage:

i. the provision of electricity supplies to about 45,000 consumers under the Earthquake/Rehabilitation Electrification Project, together with associated networks.
ii. the provision of new and rehabilitated electricity supplies to about 20,000 consumers under the Power Four Project together with associated networks.

ELIGIBILITY

This invitation for pre-qualification is open to all international Consulting Engineer firms who have previously successfully undertaken similar projects world wide, and particularly in the Middle East.

APPLICATION FOR PRE-QUALIFICATION

Interested Consultants are invited to apply for pre-qualification by sending under letter full relevant details including contracts supervised, to the following address. Applications should reach me not later than 21 days after the publication of this advertisement.

Mohamed Hassan Basaid, Managing Director, Yemen General Electricity Corporation, P.O. Box 178, Sana'a, Yemen Arab Republic.

YEMEN ARAB REPUBLIC
INTERNATIONAL BID INVITATION NOTICE

Bids are hereby inviced from bona fide manofatcurers and suppliers from member countries of the World Bank/IDA, Taiwan-Chine and Switzerlend for supply, installation, testing end trial operation of the following types of equipment and furniture for the Department of *Civil Engineering*, *Faculty of Engineering*, Sanaa University, under IOA credit 1203/YAR.

Bid packages	Types of equipment
1	Soil Mechanics Laboratory
2	Materiels Structures Laboratory
3	Sanitary Engineering Laboratory
4	Surveying and Photogrametry Laboratory
5	Properties end Testing of Materall Laboratory
6	Hydraulics and Hydrology Laboratory
7	Highway end Traffic Engineering Laboratory
8	Furniture, Audiovisual and Office Equipment

Bid documents may be obtained from the address below upon a non-refundable payment of US$100 per packege. Bids will be received up to 12:00 hours on the 14th Mey 1986 and will be opened in public immedietely thereafter in the IDA Education Project Office. All bids must be eccompanied by bid bonds covering not less than 2 per cent of the total bid price. Bids received after the stated time will be returned unopened.

Ministry of Education,
IDA Education Project,
PO Box 96, Sanaa
Yemen Arab Republic
Telex: 2405 EPIU YE Cable: PROJED

WANDSWORTH BOROUGH COUNCIL

Renewal of Heating Mains at Wendelsworth Estate, London, S.W.18

Contractors wishing to be considered for selection to tender for the renewal of heating mains at Wendelsworth Estate, London, S.W.18, should submit names to the Director of Administration, Room 111, Town Hall, Wandsworth High Street, SW18 2PU, by 3rd March 1986.

The existing installation consists of a central boiler plant which serves four blocks of dwellings at the above estate and it is intended to renew the existing underground heating and hot water mains and boilers.

Applicants must provide the following information:
(a) details of labour force, and technical and supervisory staff available;
(b) names and addresses of three technical and two financial referees together with the name of the Company's bankers;
(c) details of similar work undertaken during the last three years;
(d) copies of the last two sets of their audited accounts; and
(e) the company's policy documents/procedures relating to site safety in line with the Health and Safety at Work Act, etc., 1974.

(N.B.—Applications should refer only to the above-mentioned scheme and must not incorporate replies to other advertisements placed by Wandsworth Borough Council. Late applications will not be considered.)

Tender documents will be issued to selected contractors. It is anticipated that tenders will be invited in March 1986 for a start in May with a contract period of 4 months.

The consultancy services for this scheme will be provided by Messrs. Harding McDermott and Partners, Skyline House, Union Street, SE1 0LX, under the direction of the Director of Housing, Town Hall, Wandsworth High Street, London SW18 2PU.

G. K. JONES
Director of Administration

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(Plus V.A.T.)

Company Notices

CAISSE CENTRALE DE CO-OPERATION ECONOMIQUE
Bond Issue of US$200 million
Floating Rate Notes 1985/2005

The rate of interest applicable to the interest period from February 18 1986 up to May 19 1986 as determined by the reference agent is 8⅛ per cent per annum namely US$203.13 per note of US$10,000.

DRESSER OVERSEAS FINANCE N.V.
DRESSER INDUSTRIES, INC

Copies of the Financial Statements for 1985 are now available and may be obtained from:

Representative L. G. Moller,
Dresser Overseas Finance N.V.,
Dresser Industries Inc.,
197 Knightsbridge, London SW7 1RJ,
United Kingdom.

U.S.$100,000,000
UNION DE BANQUES ARABES ET FRANCAISES
U.B.A.F.
Subordinated Floating Rate Notes due 1995

In accordance with the description of the Notes, notice is hereby given that for the third Interest Period from February 18, 1986 to August 18, 1986 the Notes will carry an interest rate of 8¼% per annum.

The interest payable on the relevant Interest Payment Date, August 18, 1986 against coupon No. 3 will be US$414.79 per Note.

The Agent Bank
KREDIETBANK
S.A. Luxembourgeoise

NIPPON MEAT PACKERS, INC.
(CDRs)

The undersigned announces that the annual report year ended July 31, 1985 of Nippon Meat Packers, Inc. will be available in Luxembourg at:
Kredietbank S.A. Luxembourgeoise, Luxembourg,
and further in Amsterdam at:
Algemene Bank Nederland N.V.,
Amsterdam-Rotterdam Bank N.V.,
Bank Mees & Hope N.V.,
Pierson, Heldring & Pierson N.V.,
Kas-Associatie N.V.

AMSTERDAM DEPOSITARY COMPANY N.V.

Amsterdam,
February 17, 1986.

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WORLD STOCK MARKETS

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

FRANCE

[illegible]

GERMANY

[illegible]

NORWAY

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

HONG KONG

[illegible]

SOUTH AFRICA

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AUSTRALIA

[illegible]

ITALY

[illegible]

NETHERLANDS

[illegible]

SINGAPORE

[illegible]

JAPAN

[illegible]

SPAIN

[illegible]

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

CANADA

TORONTO

Closing prices February 14

[illegible]

F - No voting rights or restricted voting rights.

MONTREAL

Closing prices February 14

[illegible]

Total Sales 3,272,076 shares

OVER-THE-COUNTER

Nasdaq national market, closing prices, February 14

Continued from Page 29

[illegible]

NEW YORK INDICES

[illegible]

INDICES

[illegible]

** Saturday February 8: Japan Nikkei (c): TSE (e).

Base value of all indices is 100, except Brussels SE—1,000; JSE Gold—255.7; JSE Industrial 264.3; Australia All Ordinary and Metals—500; NYSE Composite—50; Standard and Poors—10; and Toronto Composite and Metals—1,000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.

CANADA

[illegible]

NEW YORK ACTIVE STOCKS

[illegible]

Closing prices, February 14

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
18 5/8	10 5/8	AAR u			17	31	18 1/2	18 1/4	18 5/8	+1/8
24 5/8	10 1/4	AGS			16	64	23 5/8	23 1/8	25 1/4	
18 5/8	9 7/8	AMCA				16	12	11 3/4	12	+1/8
52 5/8	35 1/2	AMR			9	4969	51 3/4	50 1/2	51 5/8	+7/8
24 3/4	18 5/8	AMR pf	2.18	8.9		2	24 5/8	24 5/8	24 5/8	-1/8
25 5/8	23 1/4	ANR pf	2.67	11.		x3	24 1/8	24	24 1/8	-1/8
12 1/2	7 5/8	APL			8	28	12 1/2	12 3/8	12 3/8	-1/8
16 3/4	10 5/8	ARX			15	24	14 7/8	14 5/8	14 3/4	
55 5/8	32 3/4	ASA	2a	5.3		306	37 3/4	37	37 3/4	+1/2
25 1/4	10 1/2	AVX		2.0		695	18	13 5/8	16	
28 1/8	20 5/8	AZP	2.72	10.	7	1532	27	26 5/8	26 3/4	+3/8
72	40	AbtLab	1.48	2.1	17	2104	69 5/8	68 5/8	69 5/8	
30 1/8	13 5/8	AccoWd	.60	1.7	21	31	29 5/8	29 3/8	29 5/8	-3/8
24 3/4	10	AcmeC	.40	3.2	16	20	12 5/8	12 1/4	12 5/8	+3/8
10 3/8	7	AcmeE	.32b	3.7	18	44	8 1/4	8 3/4	8 3/4	-1/8
19 3/4	16 5/8	AdaEx	1.90e	10.		43	18 1/8	17 7/8	18 1/2	+3/8
22 1/4	14	AdmMl	.40	1.7	19	626	u23	21 1/2	23	+1 5/8
18 7/8	8 3/4	AdvSys	1.36t	7.3	17	398	18 5/8	18 1/4	18 3/4	-1/8
36	22 1/8	AMD				2603	31 5/8	30 3/4	30 7/8	-1/4
12 5/8	10 1/4	Adobe n				52	10 1/4	d10 1/8	10 1/8	-1/8
18 3/8	14 3/8	Adob pf	1.84	12.		60	16 1/8	16	16	
16 1/2	15 1/4	Adob pf	2.40	13.		27	18 1/4	18	18	-1/8
16 1/2	8 1/8	Advest	.12a	.7	15	394	16 1/2	16	16 1/2	+1/2
59 1/8	39 1/8	AetnLf	2.64	4.3	19	4606	u59 5/8	58 5/8	59 1/8	+3/4
57 1/2	52 1/2	AetL pf	5.19e	9.9		207	54	54	54	+1/8
65 7/8	27 1/4	Ahmns	1.20	1.8	6	3642	65 5/8	64 1/2	65 1/4	+1 1/8
4 5/8	2 1/2	Aileen			166	106	3 3/4	3 5/8	3 3/4	+1/8
75	46 7/8	AirPrd	1.48	2.0	15	429	74 5/8	74	74 1/8	-1/8
24 5/8	17 1/2	AirbFrt	.65	3.0	15	916	20 5/8	19 3/4	20 1/4	+1

Continued on Page 29

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NYSE COMPOSITE CLOSING PRICES

Continued from Page 28

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										

X Y Z

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
66⅞	42⅛	Xerox	3	4.5	15	4015	u67	66⅛	66¾	+⅛
56¾	49	Xerox pf5.45		9.7		1821	56½	56¼	56¼	+⅛
34¾	26	ZaleCp 1.32		4.1	13	81	32½	32¼	32½	+⅛
16⅞	4⅞	Zapata .08j			27	1715	4⅞	d	8⅜	3¾
65⅛	38⅝	Zayre s .48		.7	19	609	64⅛	63	64⅛	+1⅛
25	12¼	ZenithE				10181065	20⅝	26	20⅝	+¼
23⅝	17¼	Zero s .36		1.6	17	40	22½	22¼	22½	+½
42¾	26¾	Zurnin 1.32		6.1	15	71	42½	42	42½	+⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begins with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices February 14

Stock	Div	P/E	Sls 100s	High	Low	Close	Chnge
[illegible]							

OVER-THE-COUNTER

Nasdaq national market, closing prices, February 14

Stock	Sales (Hnds)	High	Low	Last	Chng
[illegible]					

Continued on Page 27

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

What a difference a year makes

BY COLIN MILLHAM

Exactly a year ago the dollar rose to a two-year peak against the yen of over Y260; to a 13-year high against the D-mark of DM 3.30; to an 11-year peak against the Swiss franc of SFr 2.80; and rose above FFr 10.00 for the first time ever. Sterling was at its lowest level ever, at that time, of about $1.0850.

The market has now reversed itself to such an extent that sterling's value against the D-mark is roughly the same as the dollar's against the D-mark 12 months ago. Over the period the pound has weakened from about DM 3.60, showing similar losses against the Swiss franc and yen, but rising back to acceptable levels of around $1.40 in terms of the dollar.

Last February central banks were intervening in an attempt to stem the dollar's rise, but this year there was no sign of action to stop its fall.

It was a meeting of monetary officials in September, which really began the dollar's sharp reversal. A meeting of the Group of Five in New York agreed on concerted action to reduce the value of the US currency, but in the event the mere threat of intervention was enough to set the dollar tumbling, although for the first six months or so after the agreement the Bundesbank was keen to show its hand at the Frankfurt fixing.

By last week the dollar had been so heavily sold that it was at a seven-year low against the yen, testing the Y180 level, and making a fall below the record low of Y175.50 touched on October 31, 1978, look a distinct possibility this week.

The dollar was also at a three-year low against the D-mark and Swiss franc, of around DM 2.35 and SFr 1.95, with only a period of profit taking and short covering ahead of the long weekend in the US, celebrating Washington's birthday on Monday, preventing a further slide.

Sentiment has moved so much against the dollar that encouraging US statistics, such as the latest unemployment figures, have no impact, but disappointing figures, such as retail sales, push the dollar lower.

Attention has switched towards comments from finance ministers and central bank governors to try to gauge the attitude of the monetary authorities and when the central banks will decide the dollar has fallen far enough. Germany indicated last week that it felt this point had already been reached, but Japan may be prepared to see the slide continue, in an attempt to head off protectionist pressure against Japanese exports to the US.

Trying to decide Japan's attitude is not always easy however. Officials in Tokyo were particularly voluble last week, but meanings may have been lost in the translation. Did Mr Noboru Takeshita, the Finance Minister, say he was not worried about a dollar collapse, or the dollar collapse? If he said the former then he does not think the dollar is going into free fall, but if he meant the latter he acknowledges the US currency is already collapsing, but is not worried about it. This could make a crucial difference in deciding when, or even whether, the Bank of Japan tries to stop the dollar's slide.

£ IN NEW YORK

Close	Feb. 14	Prev. close
£ Spot	$1.4215-1.4225	$1.4175-1.418
1 month	0.62-0.50pm	0.52-0.50pm
3 months	1.60-1.67pm	1.58-1.56pm
12 months	6.35-5.66pm	6.30-5.20pm

Forward premiums and discounts apply to the U.S. dollar.

CURRENCY MOVEMENTS

Feb. 14	Bank of England Index	Morgan Guaranty Change %
Sterling	75.0	−17.0
U.S. dollar	120.4	+10.8
Canadian dollar	79.3	−12.0
Austrian schilling	123.6	+8.8
Belgian franc	93.5	−8.3
Danish Kroner	84.6	−8.0
Deutsche mark	162.8	+13.1
Swiss franc	155.1	+16.3
Guilder	122.1	+6.1
French franc	70.8	−16.6
Lira	45.8	−16.6
Yen	182.4	+41.3

Morgan Guaranty changes: average 1980-1982=100. Bank of England index (base average 1975=100).

OTHER CURRENCIES

Feb. 14	£	$
Arg'tina	1.1380-1.1343	0.8000-0.8016
Aus'alia	2.0190-2.0260	1.4230-1.4245
Brazil	18,282-18,384	12,820-12,986
Finland	7.4705-7.4966	5.2790-5.2816
Greece	201.89-206.26	142.72-145.60
H'kong	11.0600-11.0780	7.8030-7.8050
Iran	112.00*	82.60*
Kuwait	0.4015-0.4023	0.28330-0.28340
Lux'burg	68.10-68.80	48.00-48.10
Malay'sa	3.4835-3.4838	2.4575-2.4596
N'Z'land	2.6370-2.6470	1.8585-1.8640
Saudi Ar.	5.1635-5.1736	3.6505-3.6516
Sin'pore	3.0330-3.0430	2.1400-2.1420
S.Af.(Cm)	2.9665-2.9756	2.0920-2.0965
S.Af. (Fn)	4.1100-4.2325	2.8985-2.9850
U.A.E	5.2065-5.2155	3.6720-3.6736

* Selling rate.

CURRENCY RATES

Feb. 14	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	6.723942	0.648218
U.S.$	7½	1.12581	0.010176
Canadian $	11.47	*	1.26067
Austria Sch.	4	16.6434	15.2616
Belgian Fr.	8¾	54.6516	44.2818
Danish Kr.	7	8.79004	7.98308
D'mark	4	6.65570	2.16673
Guilder	5	2.99978	2.44600
French Fr.	8½	8.14636	6.64011
Lira	18½	1807.31	1478.98
Yen	4½	204.672	167.742
Norway Kr.	8	8.28258	6.74673
Span'h Pta.	—	167.118	136.313
Swedish Kr.	9½	8.37772	6.83866
Swiss Fr.	4	2.20381	1.79313
Greek Drch	20½	163.046	132.618
Irish Punt	—	0.876488	0.715589

*C$/SDR rate for February 13: 1.57739.

POUND SPOT—FORWARD AGAINST POUND

Feb 14	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4115-1.4215	1.4175-1.4185	0.53-0.50c pm	4.36	1.61-1.56pm	4.47
Canada	1.9760-1.9821	1.9786-1.9821	0.05c pm-0.04d	−0.27	0.37-0.21p	−0.59
Nethlnd.	3.75¾-3.78¾	3.75¾-3.76¾	2¼-1⅞c pm	6.38	6½-6¼ pm	6.72
Belgium	68.02-68.52	68.10-68.20	15-7c pm	1.94	33-21 pm	1.58
Denmark	12.62½-12.35¾	12.29-12.30	5¼-3⅞ore pm	4.45	14½-12¾ pm	4.41
Ireland	1.0981-1.1062	1.1007-1.1017	0.30-0.15p pm	2.45	0.80-0.36 pm	2.08
W. Ger.	3.31¼-3.35¾	3.32-3.33	2¼-2pf pm	7.67	6¾-6½ pm	7.97
Portugal	216-218½	216½-217¼	270-580c dis	−22.98	800-1530d	−19.65
Spain	209¼-210¼	209¼-209¾	35c pm-5 dis	−6.86	25-135 dis	−1.53
Italy	2260-2281¾	2264½-2265½	8-12lire dis	−5.30	32-37 dis	−6.08
Norway	16.38¾-16.43	16.38¼-16.39¼	⅞-1ore dis	−6.65	1½-2½ dis	−6.76
France	16.19½-16.28¼	16.20½-16.21½	⅝c pm-⅞ dis	−0.15	5½-7¼ dis	−2.47
Sweden	10.51½-10.57¼	10.52¼-10.53¼	¼-⅛ore pm	0.57	3½-2½ pm	1.12
Japan	257¼-258½	257½-258½	1.39-1.26y pm	6.16	4.20-4.03 pm	6.38
Austria	23.39-23.53	23.47-23.52	11⅞-10⅜gro pm	5.68	35⅞-30¾ pm	6.91
Switz.	2.75-2.78¼	2.75¼-2.76¼	2-1¾c pm	8.16	6½-5⅞ pm	8.70

Belgian rate is for convertible francs. Financial franc 68.85-68.95. Six-month forward dollar 3.05-3.00c pm, 12-month 5.40-5.30c pm.

FORWARD RATES AGAINST STERLING

	Spot	1-month	3-month	6-month	12-month
Dollar	1.4180	1.4128	1.4022	1.3878	1.3645
D-Mark	3.3250	3.3041	3.2689	3.1993	3.0820
French Franc	10.21	10.2059	10.2620	10.2585	10.1869
Swiss Franc	2.7575	2.7384	2.6979	2.6463	2.5516
Japanese Yen	258.6	256.68	253.80	249.97	243.14

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu February 14	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	44.8320	44.2812	−1.23	+1.13	±1.5425
Danish Krone	8.12857	7.98302	−1.79	+6.57	±1.6421
German D-mark	2.23840	2.16373	−3.34	−6.96	±1.1455
French Franc	6.86402	6.64011	−8.26	−6.90	±1.3654
Dutch Guilder	2.52208	2.44600	−3.06	−0.70	±1.5162
Irish Punt	6.724578	6.715589	−1.24	+1.12	±1.6673
Italian Lira	1520.80	1472.98	−8.13	−2.12	±4.0856

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

CURRENCY FUTURES

CHICAGO

LONDON

DOLLAR SPOT—FORWARD AGAINST DOLLAR

EURO-CURRENCY INTEREST RATES

Feb. 14	Short term	7 Days notice	1 Month	Three Months	Six Months	One Year
[illegible]						

Long-term Eurodollars: two years 8½-8⅞ per cent; three years 8⅞-9⅛ per cent; four years 9⅛-9⅜ per cent; five years 9¼-9½ per cent nominal. Short-term rates are call for US dollars and Japanese yen; others two days' notice.

EXCHANGE CROSS RATES

MONEY MARKETS

Little optimism on rates

The London money market was very quiet last week. Three month interbank was virtually unchanged throughout, at 12¾ per cent, and dealers saw no prospect of an early movement in interest rates.

UK clearing banks base lending rate 12½ per cent since January 9

The final money supply figures supported the Bank of England view that there was no need for higher base rates, taking account of the domestic situation, but the market remained concerned about the general position of sterling.

Although the pound remained comfortably above $1.40, dealers were concerned that the weakness of the dollar was disguising sterling's slide against other currencies. With the pound remaining close to a record low against the D-mark, there was equally no optimism about any cut in rates.

Refusal by some traders in the oil market to honour their commitments, after the sharp fall in prices, cast a shadow over North Sea forward trading, and left that market very quiet. Oil prices were fairly steady, but expectations of further falls increased after the UK Government made it clear there is no chance of a reduction in North Sea output, as called for by the Organisation of Petroleum Exporting Countries.

Another unsettling factor for sterling was the recent performance of the Government, and signs of the Conservative Party's increasing unpopularity. The latest opinion poll put the Tories in third place, behind Labour and the Alliance.

In the money market the flat yield curve took account of these factors, indicating there was little optimism about the future trend in rates.

NEW YORK

(4 pm)

Prime rate	9½
Broker loan rate	8¾
Fed funds	7¾
Fed funds at intervention	7¾
Treasury Bills & Bonds	
One month	7.01
Two month	7.05
Three month	7.25
Six month	7.47
One year	7.56
Two year	7.96
Three year	8.07
Four year	8.16
Five year	8.30
Seven year	8.53
10 year	8.68
30 year	8.94

BANK OF ENGLAND TREASURY BILL TENDER

	Feb. 14	Feb. 7		Feb. 14	Feb. 7
Bills on offer	£100m	£100m	Top Accepted rate of discount	12.1132%	12.1132%
Total of applications	£391m	£567m	Average rate of discount	12.0838%	12.1006%
Total allocated	£100m	£100m	Average yield	12.46%	12.46%
Minimum accepted bid	£96.98	£96.98	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	28%	68%			

WEEKLY CHANGE IN WORLD INTEREST RATES

LONDON	Feb. 14	change	NEW YORK	Feb. 14	change
Base rates	12½	Unch'd	Prime rates	9½	Unch'd
7 day interbank	12⅞	−⅟₁₆	Federal funds	7⅞	+⅛
6mth interbank	12¾	−⅟₁₆	6 Mth. Treasury Bills	6.99	−0.45
Treasury Bill Tender	12.0838	−0.0168	6 Mth. Treasury Bills	7.08	−0.68
Band 1 Bills	12⅝	Unch'd	3 Mth. C D	7.70	−0.16
Band 2 Bills	12⅝	Unch'd			
Band 3 Bills	12¾	Unch'd	FRANKFURT		
Band 4 Bills	12⅝	Unch'd	Lombard	5.5	Unch'd

FT LONDON INTERBANK FIXING

(11.00 a.m. Feb. 14)

Three months U.S. dollars		Six months U.S. dollars	
bid 7 15/16	offer 8 1/16	bid 7 15/16	offer 8 1/16

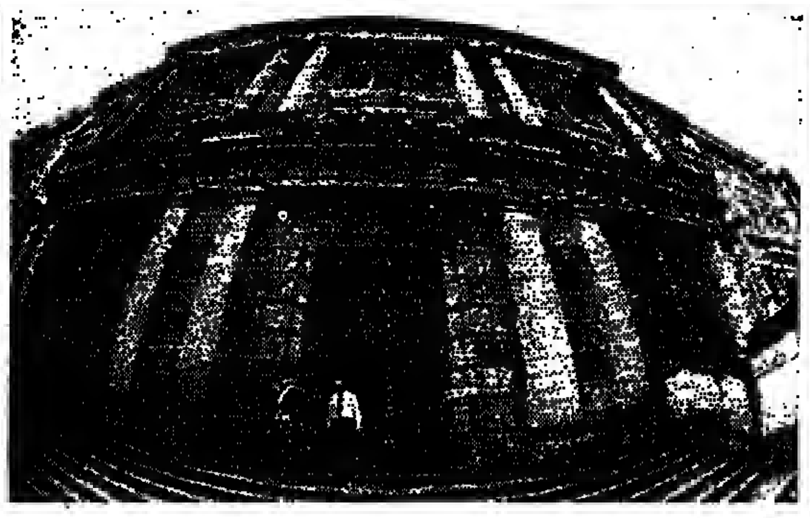
The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

LONDON MONEY RATES

MONEY RATES

SECTION III

FINANCIAL TIMES SURVEY


Cash dispensing machines in a Tokyo bank, the Bank of Japan and the trading floor of the Tokyo Stock Exchange, just three of the areas affected by financial deregulation

JAPAN

BANKING, FINANCE AND INVESTMENT

Although much remains to be done in opening up Japanese financial markets to the full force of competition, a largely regulated society is slowly accepting the need to do so in order to expand in the international arena

Critical challenges lie ahead

By CARLA RAPOPORT

IF TOKYO wants to be competitive, it must have a competitive regulatory environment, rather than artificially hamper the exchange of funds for patriotic reasons.

This comment was made not by an American politician, British government official or German banker, but by a senior Japanese banker in his office in central Tokyo, and his words help to highlight the depth of the debate over the pace of deregulation of Japan's financial markets.

While great numbers of Japanese bureaucrats point with pride to what has been done already to liberalise Tokyo's financial markets, many foreigners, along with a rising number of Japanese, are looking ahead at what is still to be done.

What remains undone makes a more daunting list than what has been accomplished. Unlike the programme of deregulation and liberalisation (see page 2), with dates typed next to the changes already made, there are no clear-cut dates for some of the critical challenges ahead.

Still in the pending file, for example, is the continued control of interest rates on small deposits; the juicy tax-breaks which the government-owned postal savings network is allowed to offer small investors; comprehensive legislation aimed at investor protection; tax reforms tied to the proposed offshore banking facility; any plan for an end to fixed commissions or a redaction in government duty on the buying and selling of stocks; a date for the commencement of a commercial paper market, and other problems.

At the same time, Japan's financial community is facing a challenge of a different sort. The country's huge trade surplus with Western countries, along with a gradual slowdown of its own economy in recent years, has created unprecedented levels of liquidity.

This, in turn, has sharply reduced the appetite for loans from the nation's industrial sector. Instead, this excess cash, which some put as high as Y700,000bn ($3,864bn), more than twice the GNP, has fuelled demand for investments of almost any and every kind. Net capital outflows, largely made up of funds seeking higher interest rates abroad, surged to $50bn last year, making Japan the world's largest creditor nation.

Understandably, all financial institutions, foreign and Japanese, have been trying furiously to "intermediate themselves," as one American banker put it, between the owners of this money and their choice of investment. Investment trusts have swollen by a factor of three in the past five years to more than Y20,000bn.

Investments in money market certificates, launched last March, surpassed medium-term government bonds in less than 10 months to net Y6,000bn by the end of last year. The appetite for US treasury bonds is so great in Tokyo that $3bn worth are traded daily while New York is fast asleep.

Or consider currency swaps, the somewhat arcane world of borrowing in one currency with the express intention of swapping the currency for another. Regulations which prevented swaps was lifted last April—Tokyo is now believed to account for a quarter of the world swap market.

All this activity has regulatory officials somewhat overwhelmed. Rather than push for a faster pace of deregulation, they talk of the "embarrassment" of the long-term credit banks or the Japan Development Bank, which have out-lived their original goal of rebuilding industrial Japan.

They point to thousands of jobs in the city (commercial) and regional bank sector, speculating that when the cost of funds is deregulated, margins will all but disappear for many banks, putting jobs in them at peril. So far, the notion of a vigorous shake-out in the industry, through merger and acquisition, has not been mooted.

Further resistance to change comes from the political sector, as nearly every regional bank and credit co-op has its local politician. Not unlike small American towns, the local bank chairman is a powerful man in Japanese communities, upon whom local politicians will often depend for his fund-raising skills.

The notion of changing the big postal savings system, uniquely blessed with its tax-break incentive for small savers, is also muddled by political consideration. Raising taxes is simply not popular anywhere in the world. And the postal savings network is the largest financial institution in Japan and a major employer of civil servants.

Another stumbling block to quicker deregulation is a fear among many government officials of losing control of the situation. Japan is still a rather regulated society. In the banking sector it is not only foreigners who must keep running to the Ministry of Finance for approvals on proposed deals.

Even automated teller banks are told how many hours they can operate automated teller machines (currently until 6pm). Many officials foresee chaos in the financial sector when and if all the more important lids are taken off.

"It is boom time now, but

CONTINUED ON PAGE 12

CONTENTS

Pictures by Ashley Ashwood

Major steps in the internationalisation and liberalisation of financial services have been taken in three areas

More barriers ready to come down

TWO YEARS after Japan embarked on the much-publicised liberalisation of its financial system, considerable progress has been made, possibly more than e sceptical world expected in 1983 when the US Government began to put pressure on Tokyo. But because the pace of change has been quite rapid, it has also thrown up anomalies which will heve to be addressed in the next stage of reforms.

Although the US has claimed credit for touching off moves to internationalise use of the yen and phase out controls on Japan's domestic financial markets, the Japanese still insist that the impetus was internal: the Government needed to modernise the markets to belp it finance its blossoming budget deficit; an obsolete financial structure dating back to the immediate post-war years had to be made to compete in the international marketplace, largely by importing foreign financial know-how and technology.

Over the last two years, major steps have been taken in three areas:

● Deregulation of the money and capital markets: restrictions on the issue of certificates of deposit (an important source of wholesale bank funds) have been eased, and money market certificates bave been introduced. Interest rate ceilings on deposits ere being phased out, and controls have been lifted from the foreign exchange market.

Innovations like e yen-denominated bankers' acceptance (BA) market and a bond futures market have been started, and an offshore market may get underway later this year. Some of these changes, notably the BA market, have been slow to make their mark, bnt most of them have had e dramatic effect: the foreign exchange market has boomed, and banks are having to learn to grapple with real rather than artificial interest rates.

● Greater access for foreign institutions: foreign banks have been admitted into government bond dealing and the trust banking business. Several foreign banks have been granted licences to deal in securities, and six foreign securities firms were eerlier this month admitted to membership of the Tokyo Stock Exchange.

● Euroyen market: most controls that bad inhibited the growth of this market have heen lifted, greetly widening the range of those who can borrow and invest in Euroyen.

If the US hoped these measures would raise the yen to more "realistic" levels on the foreign excbange markets and dampen Japan's export growth, it will have heen disappointed: the yen this month has been at its highest in seven years, and the trade surplus has hit record levels.

The new climate

DAVID LASCELLES

But there is more to come. Over the next year or so, interest rate controls on large deposits will be lifted, leaving only small deposits to be considered later (though that may take some time). After that tha Government will have to address the potentially explosive question of the structure of the banking industry itself.

Althoogh Japan's famous Article 65 which ereates a Glass-Steagall-style wall between the securities and commercial banking business seems as deeply embedded as ever, the concessions that Tokyo bas bad to make to edmit foreign institutions to its financial markets heve hlown some very conspicuous boles in it.

Notably, the Ministry of Finance has granted securities licences to the subsidiaries or affiliates of foreign banks, such as Vickers da Costa (the stockbroking subsidiary of Citibank) and broking entities part-owned by Deutsche Bank and Security Pacific. Although the last two arguably qualify since they are not fully bank-owned, their admission has upset tha big Japanese banks who would dearly like to get into the securities business too but know that the MoF would make no exceptions for them.

The nine foreign banks admitted to the trust banking business last year also enjoy privileges denied to Japanese commercial banks. Some quirks in the rules for Euroyen issues also make it easier for foreigners to make them than Jepanese borrowers.

Epitomising these anomalies favouring non-Jepanese institutions, Citicorp, the parent of Citibank, is at once a commercial bank, e securities firm, and a trust bank in Japan, and it is possible that before long Barclays will be too.

Mr Toyoo Gyobten, the Director General of the International Finance Bureau of the Ministry of Finance, concedes that few Japanese institutions are happy with what be calls "this twisted situation," and he says the euthorities may have to seek legal clarification to sort it out. But the key question is wbether banking law will be amended.

At the moment, there seems little prospect of this. Japanese stockbrokers would put up a fierce resistance to the idea of banks entering their field. The MoF has a working group that is preparing proposals to reconcile the competing interests of commercial banks, the long-term credit banks and the securities houses. It may suggest that each gronp gives and takes e bit, hut the bargaining could go on for years.

Mr Norio Namitome, who is analysing the position at the Jepan Centre for International Finance, favours complete removal of all barriers. "Our financial system is obsolete," he says. "We do not have time for bargaining. Tha markets ahroad are changing too fast."

Meanwhile, the Jepanese authorities are also having to consider the prudential implications not only of these radical changes, but also of the Japanese banks' rapid growth overseas.

The Japanese have long countered foreign suggestions that their banks are undercapitalised with ths argument that they have large hidden reserves in the form of unrealised profits on their securities portfolios. But there is now a growing belief that capital ratios should be more explicit.

"We have to take a broad look at banking supervision," says Mr Shijuro Ogata, depnty governor for international affairs of the Bank of Japan. "It would be good if Japanese banks had capital in a more publishable and identifiable form."

The Ministry of Finance is considering introducing a European-style risk asset ratio, which would set capital levels for banks based on the riskiness of their assets. Proposals are due this spring, but the MoF bas already introdnced some controls of this kind on the banks' overseas activities, mainly to curb their fast-growing off balance sheet business in the Euromarkets.

Mr Gyohten says Japan is working on tha international harmonisation of banking supervision. "But specifics differ, so it may not be possible to prodnce a single, simple rule."

This year will also bring moves to strengthen the Japanese deposit insurance scheme by raising premiums and boosting the fund to pay out depositors at failed banks.

Tha implication is that the banking authorities intend to remove the unofficial safety net that has prevented bank crashes since the war. Smaller banks, who feel vulnerable but carry a lot of political clout in their communities, are expected to kick np a fuss.

Tokyo Money and Capital Markets

Guide to implementation of Internationalisation and Liberalisation — As of January 1986

Implementation dates shown along a timeline: 4/84, 6/84, 1/85, 4/85, 10/85, 4/86, 9/86, 4/87

ITEM	IMPLEMENTATION
A. Deregulation of the Money & Capital markets	
1. Greater flexibility in CD issues	
(1) Lower minimum CD issue unit	Jan. (Y500-300 mil) → 1/4 (Y300-100 mil) → (Y100-50 mil)
(2) Expand CD issue ceilings (Net worth ratio)	Expanded; 1/10 expanded (150%-200%) → expanded or ceiling abolished
(3) Shorten CD issue maturities	1/4 (3-1 month); (1m-1year) → less than 1 month up to 1 year
2. Introduction of Money Market Certificates	1/3 MMC introduced
(1) MMC issue unit	Y50 mil; Y30-20 mil
(2) MMC interest rate	CD-0.75%; different for period & amount
(3) MMC issue maturities	1-6 months → 1 month-1 year → 1 month-2 years
(4) MMC issue ceilings (Net worth ratio)	150% → 200% → 300%
3. Relaxation/abolition of interest rate controls	
(1) large denomination deposits	1/10 Y1 bil—Y500 mil—Y300 mil — Y100 mil
(2) small denomination deposits	to be studied on completion of 3(1)
4. Yen-denominated Bankers' Acceptances market	1/6 start; sec cos. dealing
5. Govt. bond futures market	10/10 start
6. Tokyo offshore market	to start
7. Study a short-term govt. bond market	
8. Real demand rule	1/4 Abolished
9. Resident overseas accounts	
10. Yen swap limitations	1/6 Abolished
11. Yen denominated foreign lending	Deregulated →
12. Govt. bond dealing by foreign bank	10/10 3 banks; 1/6 another 6 banks
B. Foreign financial institution participation	
1. TSE membership by foreign securities firms	1/2/86 6 firms
2. Entry of foreign banks into trust banking	9 banks licensed
3. Transparency of financial administration	
C. Euroyen Market	
1. Euroyen Bonds	
(1) Relaxation of Guidelines for non-resident Euroyen issues	
a) Issuing bodies	1/12 for. private cos. →
b) Eligibility	1/12 → 1/4 relaxed → rating system to be studied
c) Number of issues/amount	1/12 restrictions abolished
(2) Relaxation of Guidelines for resident Euroyen issues	1/4 Relaxed → FRN issues
(3) Lead management of Euroyen loans by foreign dealers	1/12 start
(4) Withholding tax on resident issues of Euroyen bonds held by non-resident	1/4 abolished
2. Relaxation of controls on Euroyen CDs (less than 6 months; domestic sales forbidden)	1/12 relaxed
3. Deregulation of Euroyen loans	
(1) Short-term	1/6 Deregulated
(2) Medium- and long-term	1/4 deregulated for non-resident
D. Direct Investment	
Designated companies system	18/5 bill approved; 1/7 took effect

Source: Japan Centre for International Finance

PROFILE: TOYOO GYOHTEN

Mr Toyoo Gyohten, director-general of the International Finance Bureau, one of the Ministry of Finance's three major sub-divisions: indisputably an internationalist

Elite job at the top

KEEN students of racing form and professional kremlinologists would enjoy following the Ministry of Finance. In no Jepanese ministry is power so fiercely sought and probably in none does it bring so many rewards in policy-making terms. For the MoF hureaucrats themseives, in this era of liberalisation and internationalisation, there is one position which counts above all others, that of vice minister for international affairs. It is the elite joh in e ministry of the elite.

It is beld by the redoubtable and elegant Mr Tomomitsu Oba, but probably not beyond this summer when ha is due to "descend from Heaven" to assume a major and lucrative post in the private or quasi-public sector. Though betting on a successor is eternally risky, one man is generally helieved to be the cleer beir-apparent to the throne. He is Mr Toyoo Gyobten, now director-general of the International Financa Bureau, one of the MoF's three major sub-divisions, and already a figure of substance in his own right.

Gyobten, now 55, is indisputably an internationalist. Born in Yokohama, he took an economics degree et Tokyo University, differing from his colleagues only in that most of them read law at Tokyo. He subsequently studied journalism at Waseda (and nearly became e joornalist), attended Princeton University on a Fulbright scholarship, worked on the Japan desk et the IMF in Wasbington, served as special assistant to the president of the Asian Development Bank, and has, for the past decade, been in tha thick of the opening of Japan's financial doors to tha ootside world.

Bnt there is more to Gyobten than an impressive curriculum vitae. He speaks English fluently and, more to the point, thinks in English, as well as Japanese. He likes the cut and thrust of debate, which is more than can be said for most Japanese, who prefer to take refuge in circumlocution. He will even go so far as to display intellectual arrogance in dissecting what he considers to be defective argumants, be they from his own staff or from foreign official negotiators.

His tastes, too, eppear catholic. He recently instituted regular wine and cheese parties in MoF's hallowed confines, access to which, not so long ago, was best echieved by e crowbar. His own office is less dingy and drab than the MoF norm, to the point of some nice watercolours (be is an amateur artist himself).

He dresses sharply preferring checks and patterns to solids, and last year, resplendent in traditional dress, even made the cover of tha Institutional Investor magazine, an international exposure to which Jepanese civil servants have not exactly heen accustomed.

But those who have followed Gyohten'a career insist thet it is misleading to look only at his international side. He is, after all, also the prodnct of a ministry which has been a fierce guardian of the "Japanese way" of doing husiness. Japanese bureaucrets who go out on limbs generally find themselves cut off end Gyobten has been adept at never pushing the limits of acceptahility.

He has emerged in the last year as e strong, even striking advocate, of an offshore market for Tokyo, but he only did so after being assured that a necessary consensus existed for such a move.

Like any good Japanese bureaucret, be is also a pragmatist. He will concede, theoretically, that some of the weaker domestic financial institutions will probably not he eble to survive liberalisation in their present form; bnt, in the next sentence he will preach the virtues of prudential management and take pride in the fact that Japan has evoided the sort of big financial collapse that has afflicted the West so often in the last 20 years. In any case, as be is fond of saying, "all markets do not have to be the same."

At the moment, pragmatism is tending to serve the cause of internationalisation. It has enabled Japan to find discreet ways round the legal separation of banking and broking businesses—at least for foreign institutions. This is the sort of "reverse discrimination" of which Gyobten tacitly approves, provided that it be understood that the day could come when, for domestic reasons, domestic institutions might also need a little extra assistance.

If the MoF gods smile, Gyobten can reckon on serving two to three years as vice-minister before himself considering his descent from heaven. He could then be feced with an interesting choice—the conventional one of remaining e domestic power behind the government or doing what few Japanese have so far chosen, a second career with ooa of the major international financial or development institutions. His qualifications for hoth appear so far excellent.

THE NIKKO PERSPECTIVE

ON WHAT Constitutes Healthy Development of the Tokyo Capital Market

WHAT DEVELOPMENTS ***during the past year will have the greatest effect on the Tokyo capital market in 1986 and beyond?***

Kanzaki: The two most obvious are the internationalization of the yen and deregulation.

To understand the background for the growing role of the yen, a person needs only to track two numbers: nominal gross national product and personal financial assets. Japan has become a global economic power generating an enormous excess of savings.

According to figures compiled by Nikko Research Center, personal financial assets, at ¥528 trillion, have grown 13.5% annually since 1975, compared to nominal GNP growth of 8.1%.

In reality, there is little chance of the gap narrowing. For that to happen, savings would need to stop or growth in GNP to accelerate to a high rate. The structure of the Japanese economy and fiscal policy make it difficult for the domestic economy to absorb this high level of savings.

The surplus must go somewhere, and therefore Japan is becoming a capital exporter.

Some measures exist on just how far the yen must go to become a truly international currency. For example, Japan's share of world trade is 8.5%, compared with 9.0% for the Federal Republic of Germany. But the deutsche mark accounts for 12% of the reserves of central banks, compared with only 5.2% for the yen.

As the internationalization of the yen progresses, there will be no turning back. And I think deregulation is also an irreversible trend.

WHAT DOES ***this trend toward deregulation mean for the development of capital markets in Japan? And what does it mean for your business?***

Kanzaki: All of us in the industry joke that deregulation is not necessarily good. It is much easier to operate in a highly regulated environment with minimal competition. However, I will let a previous generation write about the joys of no competition. My job is to devise competitive advantages for Nikko in a highly fluid environment.

To respond to your question on deregulation, I will make two points about the state of Japan's capital market.

First, the process of removing restrictions on the long-term capital market has been fast and smooth. There is still room for improvement, but I think Japan has a free and open market. It is also a sizable market, approximately a third the size of the one in the United States.

Second, the area needing the most change is the short-term capital market or money market. An active, broad-based market for short-term government securities is essential to the overall development of the capital market. For example, the daily trading volume in short-term government securities is not that much lower than in the United States. Thus, there are appearances of a market.

But reality is in striking contrast with the level of these securities outstanding, with Japan having only a small fraction outstanding of what the United States reports. This means that in Japan, the whole amount outstanding was turning over every several days.

The lack of a treasury bill market in Japan is the principal reason why the yen is not being used more widely as a reserve currency. Even so, the role of the yen as a reserve currency is increasing at a fast pace.

Yasuo Kanzaki

Promoted to senior managing director and the head of Nikko's international operations in November 1985, Yasuo Kanzaki has spent 30 years with Nikko Securities in both domestic and international positions.

HOW QUICKLY ***do you foresee the development of a broader money market?***

Kanzaki: I do not anticipate any major changes this year, but the environment for change is improving.

The biggest obstacle is the regulation of interest rates. Step by step, the rates of large deposits have been liberalized and the range of maturities increased. But we still lack the full selection of instruments and the flexibility in interest rates directly necessary for the development of a money market and equally important for the overall development of a vigorous capital market.

WHAT INFLUENCE ***will the admission of six non-Japanese securities companies to membership in the Tokyo Stock Exchange have on the Tokyo capital market? And what could be the effect of an offshore market?***

Kanzaki: I believe that more competition helps increase the size of the pie rather than just cut it into smaller pieces. I therefore welcome more participants in the market.

I do not think the six new members are looking solely at the benefits of handling their own trading in Japanese securities. I think they see Tokyo—as we do New York and London—as one of the three essential links in a global trading system. When the markets close in New York and on the West Coast of the United States, they can trade U.S. securities here in Tokyo. As more American and European companies list in Tokyo, the opportunities for trading global equities in Tokyo will grow.

The question of the offshore market is linked to the point I was just making. I think an offshore market will have the effect of bringing more financial experts to Tokyo. The ideas they will generate will not be restricted to the offshore market, and these ideas will find their way into the domestic financial system. The result will be new products and participants and ultimately a bigger pie.

YOU MENTIONED ***global equities. In 1985, Japanese individuals, and some institutions, were active in buying foreign equities. What is the background of this sudden surge in interest?***

Kanzaki: I already mentioned the growth and diversification of financial assets, but that by itself is not an explanation.

I believe many individuals in Japan are becoming more sophisticated in making investment decisions. They see that economic expansion in Japan is slowing and realize they must look elsewhere for investment opportunities.

They started by learning in the bond market, from the interest rate differentials. They discovered that Japanese equities are selling at higher multiples on earnings than stocks in the United States. They also saw the higher yields on American shares. Their conclusion is that they should be looking globally for bargains. And they have also been encouraged by changes in the tax treatment of foreign dividends.

OVER THE ***past six months, net portfolio investment in overseas securities was more than $30 billion, and daily trading of foreign shares listed on the Tokyo Stock Exchange has been increasing rapidly, and more foreign companies are listing in Tokyo. Do you think the recent growth was healthy, and will it continue?***

Kanzaki: I most definitely believe it is healthy and will continue. Compared with the past, Japanese investors are better informed. They have followed the effect of the oil crises. And they have been educated to the financial revolution occurring around the world.

The trend in recent months is revealing. Investors began showing serious interest in foreign equities in May 1985 and buying grew. Then came the G5 meeting and the drop in the dollar. Many investors immediately had paper losses. The experience of similar situations in the past would lead us to conclude that investor interest would sour. That has not been the case, and buying is increasing again—even with a consensus among experts that the yen will continue to appreciate.

In fact, in recent months, more than half the stock transactions in some Tokyo branches of Nikko Securities have been foreign equities. We have quickly had to internationalize our entire operations. All our sales representatives must be able to explain foreign equities because clients are bound to ask about them—even if we do not make recommendations.

I am also proud to say that we accounted for a third of the trading on the foreign section of the TSE in recent months. I believe this points to our traditional strength in equities and our ability to respond quickly—with good information—to investor interest.

I will make a final point on the investments by individuals in overseas securities. Many analysts frequently point to the 49% share of trading on the TSE accounted for by individuals—who own only 26%—and conclude that Japanese individuals are short-term investors. This conclusion is wrong because that figure is the mean and not the median. Most individuals invest for the long range. They buy and hold. A small group of individuals—the semiprofessionals—are active traders and therefore skew the figures.

HOW DOES ***the bond market fit into the overall picture of the Tokyo capital market?***

Kanzaki: In recent years, there has been gradual deregulation of both yen-denominated and foreign currency-denominated bond offerings in Japan by foreign entities. Potential issuers now have more options, and the list of entities eligible to issue here is growing and will continue to lengthen.

Needless to say, a healthy bond market is important for Japan to function effectively as a capital exporter and Tokyo as an international money center, assuming its proper place in the world of 24-hour trading.

ALONG WITH ***your recent promotion to senior managing director, you became head of Nikko's international operations. What priorities have you set?***

Kanzaki: The constant priority at Nikko—and a continual theme of Mr. Umemura, our president—is response to client needs.

This translates into several concrete priorities for me. For instance, the total trading in foreign fixed income securities last year was $346 billion, most of which was U.S. Treasury securities. To serve our clients better, we are anxious to become a primary dealer for the U.S. government. Another example is in how we structure our operations to serve clients in the Euromarket.

A second priority is to broaden the selection of securities our representatives abroad can offer. Our traditional strength has been in marketing Japanese equities, and it is frequently difficult to swap one proven pattern of success in sales for another.

Another task that has been assigned to me is the development of international capabilities throughout our domestic organization. It means we will have to rotate experts within Nikko—even from country to country—and recruit new talent as necessary.

There is no lack of things to do in a fast-paced market where the constant feeling is one of running to catch up even when you are confident of being among the leaders.

NIKKO

Nikko Securities

3-3-1, Marunouchi, Chiyoda-ku, Tokyo, Japan

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New areas sought to boost profit

Commercial Banks

DAVID LASCELLES

JAPAN'S 13 "city" banks may be the bedrock of the country's financial system but they are also bearing the brunt of the huge changes that are sweeping through it.

As their top executives see it, the much-vaunted "liberalisation" of Japan's financial market iis bringing them few direct benefits. Instead, they are having their margins squeezed by higher funding costs, while other institutions including foreign banks move into more fashionable lines of business like trust banking and securities from which they are barred by law.

Some of their bitterness is, of course, calculated to press home the point that they too want to gain from the changes. Privately, some bankers welcome the entry of foreign banks into the Japanese securities business because it opens an avenue down which they, in time, will also travel. But there is no denying that the city banks' present predicament calls for bold tactics to offset the decline of their traditional markets.

This was brought home with some force last year as their profits began to level out. In the six months to September, their pre-tax earnings were up only 1.2 per cent, and Japan's most profitable bank, Sumitomo, now makes less money than Nomura Securities, its largest securities house.

The results also showed wide variations in performance, partly it is said, reflecting the different impact of liberalisation on the banks, whose results are usually quite uniform. They ranged from a decline of 10 per cent at Sanwa Bank to a gain of 38 per cent at Kyowa Bank.

The reasons behind the easing in profits growth have been apparent for some time. On one side, the banks' operating costs are rising because of their dependence on the money markets where interest rates are unregulated. That dependence is still only about 25 per cent, but growing.

On the other, the market for their staple product—loans—has been undermined by the high level of corporate liquidity, specially at the big companies, and the trend towards securities finance.

Broadly, Japanese bankers see a two-pronged answer to their problem. One is to raise the efficiency of their traditional business and find ways of widening the spreads on loans. The other, more challenging, is to branch out into something new.

The scope for raising efficiency is probably greater than banking executives are prepared to admit. After decades of regulation, the banks have acquired large and not very strongly motivated staffs; the standard of service, particularly at the retail level, is indifferent, and investors seem ready to accept lower profitability rates than in other countries.

Cash machines

At least insofar as their domestic performance is concerned, Japanese banks do not fit the super-efficient, cutthroat image they have abroad. As a great concession to their customers they will shortly keep their cash machines going one hour longer, till 7 pm. But people will have to pay Y100 (40p) for withdrawal.

Although lay-offs are unheard of, bankers say they intend to boost the productivity of their branch networks, possibly by trimming the number, and pushing more products out through the rest, such as loans for medium- and small-sized companies which still need credit but which have been neglected by the big banks in the past.

The banks also want to reform the present over-rigid system of prime rates which is linked to the Bank of Japan's discount rate rather than to the actual cost of funds to the banks themselves.

This would enable them to pass changes in interest rates through to their borrowers more quickly, though whether they would do it as quickly on the way down as on the way up remains to be seen.

International expansion is another major pre-occupation. With their aggressive pursuit of foreign business, the banks' revenues from international operations are growing faster than the rest (they were up over 20 per cent in the first half of the fiscal year). While this may be keeping Japanese bankers busy, it is actually watering down the banks' profitability because the returns they earn overseas are even lower than those on their domestic business.

Nevertheless, foreign expansion will continue, partly because the big banks see it as an essential part of their long-term strategy, and as an alternative to the unattractive local market. More to the point, though, they consider that involvement in foreign markets is the best way to acquire new banking skills. In time-honoured Japanese fashion, they want to learn from the "gaijin."

This is particularly true of the securities business: all the major banks have active merchant banking subsidiaries in London through which they conduct a huge amount of Euromarket volume. They have also hinted that they want to enter the discount broking business in the US.

Although the banks are not allowed to offer these services on the home market, it allows them to keep abreast of new developments, and prepare for the day when Article 65 is amended or, more likely, gradually eroded.

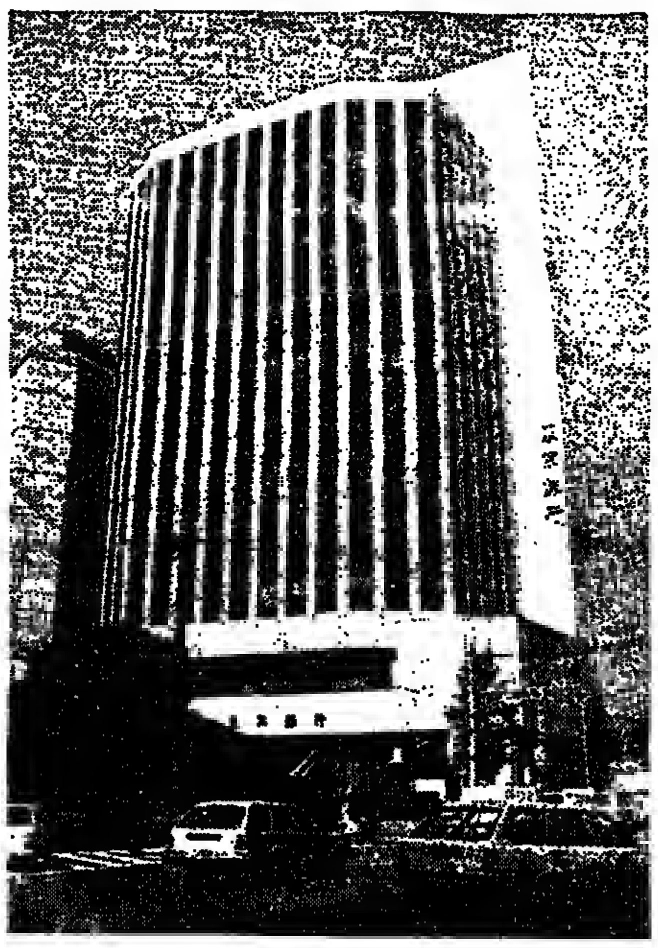
Not that the right to engage in domestic securities operations would provide Japanese banks with vast new sources of profit. Just as the Midas touch turned everything to gold, but knocked the bottom out of the gold market in the process, the entry of the city banks into Japan's securities markets would unleash an intense wave of competition.

Whether banks would then buy up the brokerage houses, merge with them or face them head-on is a matter of some speculation. But at least the banks would be able to offer securities products to both borrowers and investors.

In facing up to these changes, the banks are also having to pay more attention to their resources. Undercapitalised by western standards (though boasting hidden reserves) they face the considerable costs of installing new systems (Sumitomo is spending $300m on new computers). The banking authorities are also considering introducing new capital ratio requirements which will focus bankers' attention more closely on the returns they are earning.

Whether this produces a change in the Japanese banks' style is a major question for the future. Foreign bankers naturally hope that the city banks become more preoccupied with profitability rather than just accumulating market share and expertise, with little apparent regard to the cost.

For the moment, the Japanese banks' main concern is to establish their right to a share of the changes they see going on around them.



Left: Headquarters of the Bank of Tokyo, one of Japan's 13 "city" banks. Above: Mr Ichiya Kumagai, head of the international banking group of Sumitomo, a simple goal "to develop commercial banking, merchant banking and, wherever we can, to do securities business"

Dogged rise to the top

JAPANESE BANKS now have more foreign assets than banks from any other country, including the US, according to the latest report from the Bank for International Settlements in Basle. At the end of last September, these amounted to $640bn, far surpassing the US banks' $580bn.

This development, though impressive, can hardly have come as a surprise to the rest of the international banking community which has observed with a mixture of amazement and alarm the way that Japanese bankers have doggedly, if not ruthlessly, been building up their international business in the last few years.

A major international Japanese banking presence is now a fact of life, and it will probably continue to grow apace. Among the reasons for this is the near saturation of Japan's domestic banking market, and the far greater opportunities open to Japanese bankers once they escape the regulatory straitjacket of their home territory, particularly in the securities business.

This applies not only to the big "city" banks which carry well known names like Fuji, Sumitomo and Mitsubishi (as well as the Bank of Tokyo which specialises in foreign business) but also Japan's specially constituted long-term credit banks, like the Industrial Bank of Japan, and its leading trust banks.

Despite their huge foreign asset volumes, Japanese banks are still relatively little foreign-oriented compared to the major banks from the US and Europe. Typically, a city bank will have less than a third of its assets overseas, compared to 50 per cent or more at banks from other countries, and their foreign branches number only a few dozen, which leaves considerable scope for further growth.

"The Japanese market is very crowded, but we still see opportunities for making money abroad," said Mr Atsushi Masuda, head of international banking at Mitsubishi Bank. "If we open a branch in Japan, it takes 10 years to make a profit. If we open one in Houston, we can make money in three years."

The Japanese banks have concentrated their efforts in two main types of business: international lending, and investment banking. After the decline of the syndicated loan market in the wake of the LDC debt crisis—one of the Japanese banks' favourite lines of business—they have shifted their focus to the corporate loan sector where they have bid aggressively for market share.

The other striking phenomenon is their equally fierce assault on the international capital markets where names like IBJ, Bank of Tokyo and Mitsubishi frequently appear at or near the top of the league tables of managers of securities deals.

"Without investment banking skills, we cannot expand overseas," says Fuji Bank, which is one of the more overseas oriented banks with 42 per cent of its assets abroad.

International operations

DAVID LASCELLES

Capital markets activity is certainly providing Japanese banks with an alternative to straightforward, and unremunerative, lending, though it also gives them the chance to learn the business in anticipation of the day when they are admitted into the securities business back home.

In the meantime, these activities tend to be concentrated in their London-based merchant banking subsidiaries which—ironically—send representatives back to Japan to solicit underwriting business which their parent banks may not touch.

Much of the Japanese banks' expansion has been achieved through a gradual build-up of branches and personnel. But there have been occasional big strides through acquisitions, like Sumitomo's purchase of a controlling stake in Banca del Gottardo, the largest foreign-owned bank in Switzerland which gives Sumitomo a strong place in that country's busy investment banking business.

Last year, IBJ also bought 51 per cent of the J. Henry Schroder Bank, the US commercial banking arm of Schroders, the London merchant bank. "This will give us experience of the US wholesale market," said Mr Susumu Okabe, IBJ managing director. IBJ's stake, which cost $79m, will be raised to 75 per cent eventually.

Apart from small forays in the California market (where there is a large Japanese ethnic community) the Japanese banks have held back from the retail business, and seem unlikely to push in that direction in the foreseeable future.

Mr Ichiye Kumagai, head of the international banking group of Sumitomo, which claims to be the most internationally-minded of the city banks, says his bank's international goals are quite simple: "To develop commercial banking, merchant banking and wherever we can to do securities business."

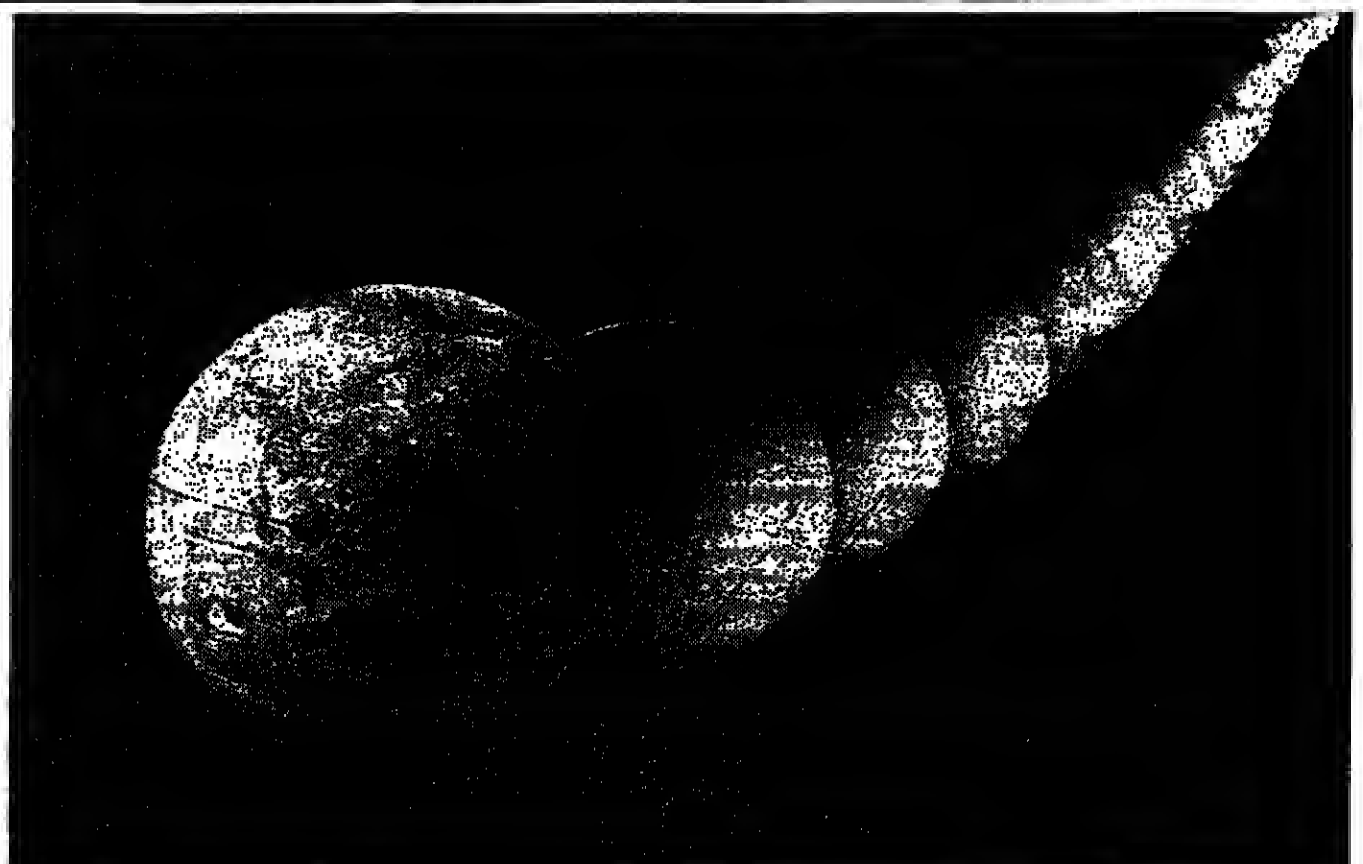
The Japanese do, however, appear to have passed up an opportunity to develop the securities side by holding back from buying a British stockbroker, as many foreign banks have amid the changes brought about by the big bang deregulation of the London Stock Exchange.

Mr Roy Takata, managing director of the Bank of Tokyo, says he doubts that Japanese banks would have received approval from the all-powerful Ministry of Finance for such a blatant move into the equity business. He expects that Japanese banks will use the opportunities presented by the securitisation of the banking market to do more "creative rebundling" of their services.

Geographically, the Japanese have the advantage of coming late to the business and being able to position themselves selectively. The US, Europe and South East Asia are the favourite destinations rather than South America, Africa and the Middle East which are not sufficiently industrialised for Japanese taste.

Although Japanese bankers have ambitious goals, they face a large hurdle: profitability. Many of them admit that their foreign operations are less remunerative than their domestic business—mainly, non-Japanese bankers would say, because they pare margins to the bone.

This may be acceptable to them so long as the Japanese banking authorities allow them to operate with less capital than their foreign competitors. However, new banking regulations are being introduced which could oblige Japanese banks to pay more attention to the returns they are earning, rather than just the marginal profit. The authorities have also been quite firm about the provisions they expect banks to make against their doubtful loans to Third World countries.



A vast market ripe for competition

Trust Banks

DAVID LASCELLES

TRADITIONALLY ONE of the more staid components of the Japanese financial scene, trust banking has been thrust into the limelight by a couple of developments.

One is the enormous growth of the Japanese pension fund business which is, by law, the exclusive province of the trust banks and the life insurance companies. Now increasing at a rate of 20 per cent a year, it currently exceeds Y20 trillion ($100bn) and could, it is estimated more than treble by the end of the century.

The other was last year's decision by the Japanese banking authorities to allow foreign banks to enter trust banking, a move which both injects a powerful new element of competition into this vast market, and begs all sorts of regulatory questions since these banks now enjoy access to a business from which Japanese banks are still debarred.

The Japanese authorities were apparently willing to create this anomaly in order to encourage the importation into Japan of foreign asset management technology and expertise in order to modernise trust banking. Though possibly less glamorous than other segments of the financial services industry like securities, it plays a vital social role given the ageing of the Japanese population.

Japan has seven trust banks, and a commercial bank, Daiwa Bank, which has traditionally been allowed to conduct trust business. At the end of March last year, they had assets of Y60 trillion ($315bn), equivalent to about a fifth of all Japanese banking assets. The largest of them, Mitsubishi Trust, had Y15bn ($80bn) which ranked it among the largest Japanese financial institutions.

Apart from running pension funds, the banks engage in a wide array of asset management activities, as well as regular bank lending, and special services such as real estate broking and stock transfer, which makes them more diversified than the commercial banks. They fund themselves from deposits, savings and the money markets.

In recent years, the trust banks have taken an increasingly international view of their business. Between them they now have more than 90 branches, offices and subsidiaries overseas, and participste quite actively in international lending and securities underwriting and distribution.

In the first nine months of last year, four of them (Sumitomo Trust, Mitsubishi Trust, Mitsui Trust and Yasuda Trust) ranked among the 50 most active lead managers in syndicated Enroloans and note issuance facilities (NIFs).

Concession expected

The trust banks still have a limit of ten per cent as to the amount of the trust assets they can invest abroad. But they are pressing to have this raised to 20, possibly 30 per cent. Given the renewed strength of the yen, the Ministry of Finance may make some concession this year.

The main criticism that is levelled against the trust banks is that their protected status has made them complacent. Their investment record has certainly not been spectacular and the fees they charge are, in many people's view, rather high.

The minimal variation between the performance of the trust banks also suggests that they unadventurously pursue similar investment policies, albeit within the tight guidelines laid down by the Government.

It was against this background that the MoF last year said it would allow in eight foreign banks, one for each Japanese trust bank. In the event nine applied, and they were all accepted: Morgan Guaranty, Barclays, Manufacturers Hanover Trust, Union Bank of Switzerland, Credit Suisse, Chase Manhattan, Chemical Bank, Bankers Trust and Citicorp.

Of these, four (Chase, Citicorp, Morgan and Bankers Trust) are already operating, and the rest expect to begin later this year.

The Japanese trust banks obviously have mixed feelings about this sudden influx. Mr Tamotsu Hanada, managing director of Mitsubishi Trust, said: "Initially we resisted change. But we took a historical view and decided it was better to open up than have outsiders break us up." In practice, banks like Mitsubishi are helping the foreigners set up their operations in Tokyo, hoping to learn something about foreign asset management methods in the process.

Mr Hanada commented: "We feel secure for the time being. It will take time for foreigners to penetrate the Japanese pension fund business: it is very conservative."

In fact many foreign banks in Japan claim to have made a deliberate decision not to go for trust banking for precisely that reason. The chances of wrestling more than a tiny portion of the market are considered to be small, yet the cost of entry could be high (minimum capital of Y1bn plus all the computer hardware and software, the premises and the staff).

New law awaited

Mr George Curuby, of the Tokyo-based financial services management consultancy firm International Business Information, who advises many of the foreign banks, doubts that they will make much money unless they specialise. "On average, each bank will generate only $2m in fees annually by the year 1990," he predicts.

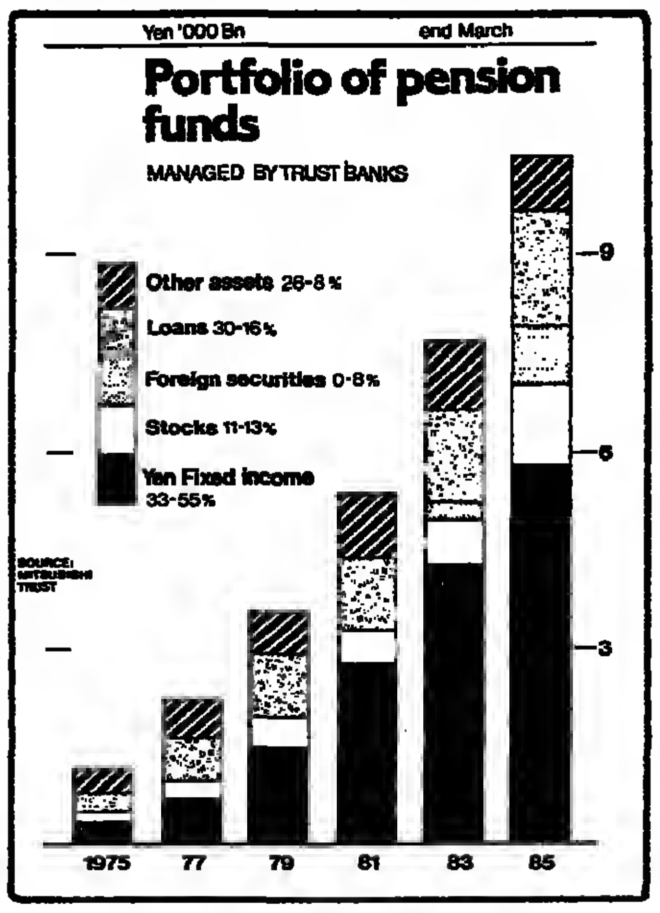
Mr Curuby believes that the tables will be turned on the foreign banks. "The Japanese will acquire the asset management technology and know-how from foreign institutions, and they will then go out and become world class asset managers."

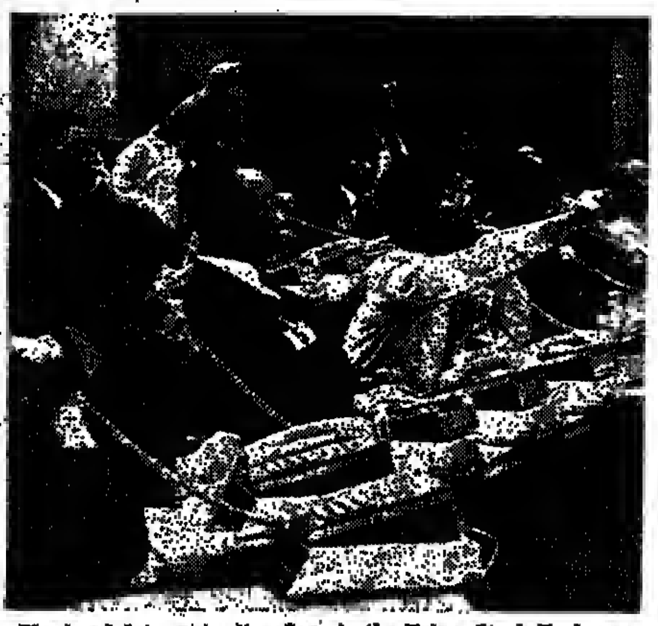
Several foreign banks also held off knowing that a new law on investment advisors, due this year, will give institutions outside the trust banking sector certain rights to manage funds on a discretionary basis. Although this will not enable them to manage pension funds, it will give them an entree into investment management.

The foreign banks that have taken the plunge are, naturally more optimistic than that, though they are not making extravagant forecasts. No one expects to make money in the first year, and few in the next couple of years. "This is not an automatic recipe for success" says Mr Robert Binney, country manager for Chase Manhattan whose trust bank is hoping to make a specialisation in managing assets disposed of by commercial banks.

Mr Micheel Tomalin, general manager of Barclays, says it will "give us another franchise in Japan. It is difficult but not impossible to penetrate the pension fund market." He points out that Japanese fund managers sometimes delegate business to co-managers.

The foreign banks believe their main strength will be their ability to outperform the Japanese trust banks, and since the pension market is so huge, a small share will be worthwhile.





The bond futures trading floor in the Tokyo Stock Exchange.

Business starts to take off

Euroyen Bond Market

PETER MONTAGNON

GREAT THINGS were expected of the euroyen market when liberalisation got underway in 1984. Suddenly a whole new dimension was supposed to be added to the international capital markets as new options were created for borrowers in both the eurocredit and eurobond sectors.

In the event, the development of these markets has proved something of a struggle. Business in medium term yen eurocredits is still strictly limited, but with the parallel evolution of the debt swap market and the firming of the Japanese currency in the second half of last year business in the euroyen bond market has begun to take off.

For the first time last year, according to the US investment house Salomon Brothers, the share of yen issues in total international bond market activity exceeded that of the D-mark at 7.6 per cent compared with 6.8 per cent. Demand for yen bonds both inside and out of Japan grew as the currency appreciated. Borrowers were keen to take advantage of this as they could protect themselves against exchange risks by swapping their obligations into other currencies.

With hindsight it is easy to see why the new markets got off to such a slow start. Japan finances only a small proportion of its foreign trade in its own currency, so relatively few borrowers have a natural interest in yen funding.

Japanese corporations do have such an interest but their access to the market has been held up by the process of liberalisation which has concentrated on business for non-residents.

Partly as a result of this the yen has never played a very large role in international financial transactions. According to Mr Nobuya Hagura, president of Dai-Ichi Kangyo Bank and chairman of the Japan Federation of Bankers, yen deposits accounted for only 2 per cent of the eurocurrency market in June last year.

Similarly, the yen had a share of only 4 per cent in world official foreign exchange reserves. Although its use in lending has increased rapidly over the past few years it still represented only 3.8 per cent of total international bank lending by the middle of last year.

In other words, the international banking system is still not used to dealing in yen in any sizeable amounts. There is an underlying fear that yen credits may prove hard to fund.

That has held back the development not only of the credit market, but also of other floating rate debt instruments such as yen-denominated certificates of deposits and floating rate notes. There has only ever been one Yen FRN, a Y15bn issue for Credit Foncier de France launched by IBJ International last summer.

By contrast business in fixed rate and dual currency bonds has been more robust. Initially borrowers in this market were held back by fears the currency would appreciate (paradoxically investors were resisting such issues at the time because the interest coupons were regarded as too low compared with those on dollar bonds).

That is still a problem, but what has changed is the rapid development of the debt swap market which allows borrowers to transfer their obligations into other currencies. Most investment banks typically now have senior staff in Tokyo engaged full time in arranging such swaps.

That has led to a rapid development of the market in dual currency bonds (which are issued in yen and repaid in dollars) and in conventional fixed rate issues too. February saw the launch of a Y80bn issue for Canada, the largest euroyen issue to date and one sizeable enough to ensure a fairly active aftermarket in secondary dealing.

Most euroyen issues are still ultimately placed back in Japan with resident investors. Their demand for such bonds increased with the rapid rise of the Yen last autumn which caused them large losses on their portfolios of bonds denominated in dollars and other foreign currencies. Foreign investor demand for yen issues has grown only slowly, although it is picking up slightly in response to currency developments.

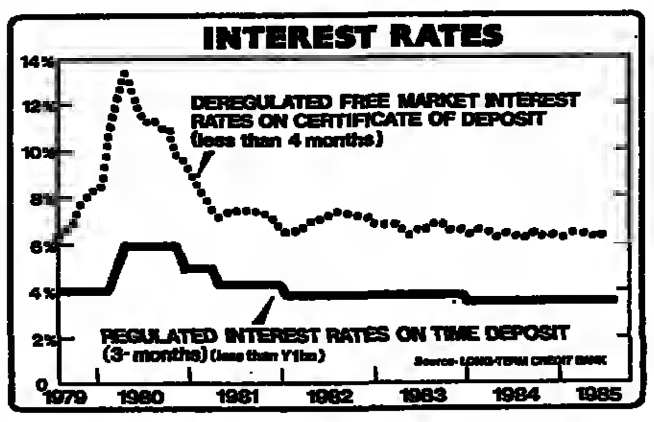
In short, most bankers believe that it will take time and a lot of careful education of investors for the euroyen market fully to come of age. Liberalisation has brought a host of new opportunities.

In the bond market, for example, convertible issues, issues with warrants attached, deep discount bonds and zero coupon issues are all now permitted. In most cases, however, these instruments are still very much at an experimental stage. Time and an economic background which lends their new instruments a genuine justification are needed before the opportunities created by liberalisation really start to pay off.

New needs force rethink

Long-term credit banks

CARLA RAPOPORT



"NOW THAT Japan's heavy industries have found themselves over-equipped and the emphasis is on the quality, not the quantity, of output, demand for credit is naturally modest. As a result, it is widely believed that the days of the separated financial institutions, such as the long-term credit banks, are numbered."

This comment, made by a senior official at the Bank of Japan recently, sums up the view of many top government officials and business executives. Some see the long-term credit banks as an embarrassing stumbling block on the road to full financial deregulation, others see the banks as potential dinosaurs saddled with huge portfolios of underperforming assets.

The banks themselves, the Industrial Bank of Japan (IBJ) Long-term Credit Bank (LTCB) and Nippon Credit Bank (NCB) naturally, take quite a different view. Set up under the long-term credit bank system introduced in 1952, the banks were created to relieve the commercial banks of the pressure of long-term financing. In essence, the banks aimed to substitute for Japan's undeveloped capital market through issuing bank debentures.

By providing inexpensive, long-term financing to Japan's industry during the 50s and 60s, the long-term credit banks came to symbolise the country's industrial rebirth. As Japan is a country devoted to tradition and obligation, the banks are unwilling to abandon their place in society, even if their original raison d'etre has all but vanished.

"It is true that all the main reasons for creating the long-term credit banks have disappeared," says Mr Mamoru Sakai, president of the LTCB, the second largest of the three. "But our institution has accumulated know-how and expertise and information. Also, through the process of developing uses for funds, we have developed a highly respected client base.

"These are resources which we think should be used to help the economy during the changes in the financial markets," he says. Further, according to Mr Susumu Okabe, managing director of IBJ, his bank intends to export its knowledge of long-term finance to countries and institutions worldwide.

Indeed, city banks have been moving into the long-term finance markets for some years now, and the long-term credit banks, as a result, have already been aggressively exporting their know-how overseas. A primary target has been the Eurobond market.

The IBJ and LTCB are preceded only by Nomura and Daiwa Securities in the ranking of Japanese institutions according to the number of Eurobond issues of which they were leaders or co-leaders in 1985.

With combined assets of more than Y52,000bn (around $260bn), a combined workforce of nearly 10,000 people, the long-term credit banks will have to expand into much more than Eurobonds. Along with most of the Japanese banks, net return on assets for the long-term banks has been bad and getting worse in recent years.

IBJ, the biggest of the bunch, shows the best performance with a slim 0.19 per cent net return on assets in 1984. The LTCB and NCB both showed returns of 0.15 per cent in 1985, against 0.22 per cent and 0.26 per cent respectively at the start of the decade.

According to Mr Mario Mizukami, managing director and general manager of planning at LTCB, however the banks have had to accept poor returns and even losses in recent years because of the anomalies thrown up by the recent deregulation of interest rates.

"It is often said that there is a legal fence between long-term and short-term financing in Japan," he said. "The only fence is really on the fund-raising side. When it comes to use of funds, there is no barrier. Both can penetrate each other's areas," he says.

Because of the regulation on interest rates for small deposits, city banks can raise funds at below market level. Therefore, city banks anxious to expand their business can use these funds to penetrate the long-term market.

As a result, the long-term banks, which have to raise funds at the higher, certificate of deposit level, must accept losses if they want to compete with the city banks and maintain their client base.

Such a policy, they believe, is not as self-destructive as it looks. The long-term bankers believe that the full deregulation of interest rates will ultimately merge the cost of funds to one line, that being the interest rate on CDs plus 0.5 per cent.

At that stage, the long-term banks will be able to make money on the same client basis and hopefully, at a lower cost than that of the city banks burdened with their large branch networks. The three long-term banks together, have just 57 domestic branches, while the 13 city banks together operate 2,730 branches.

NCB, the smallest of the three proudly points out this advantage, claiming in fact it is already among the most efficient banks in Japan. NCB's assets per employee in 1984 was around Y5bn, compared to Y3.3bn average for the three and an average of Y761m for all Japanese banks. Profit per employee is also nearly twice the average of the three long-term banks and six times the national average.

"With financial liberalisation, interest rate expense will be equalised on non-interest expenses, branches, personnel, will make the difference. In this light, it is not a branch network that is important, but how rapidly we can have deregulation on small deposits and fast we can automate our operations to reduce non-interest expenses," says Mr Mizukami at the LTCB.

The LTCB believes it will ultimately evolve into a merchant bank, along the US style. As a result, Mr Sakai admits that the time may come when the bank may have to consider changing its name, in order not to confuse customers.

The other two may not need to change their name, but their roles will just as certainly continue to change. Certain privileges, such as earning fees as the "commissioning bank" on any corporate bond, will no doubt be lost over the next few years.

Loans outstanding

(Y bn)

	Long-term loans	Short-term loans	Total	Percentage share
Long-term credit banks (3)	6,865.6	1,758.5	8,624.1	17.0
	79.6%	20.4%	100%	
IBJ	3,359.7	873.7	4,233.3	5.9
Long-Term Credit Bank of Japan	2,337.6	627.5	2,965.1	5.9
Nippon Credit Bank	1,168.4	257.4	1,425.7	2.8
City banks (13)	5,420.6	14,263.8	19,684.4	39.2
	27.5%	72.5%	100%	
Other banks and financial institutions	n.a.	n.a.	21,982.5	43.8
Total of all private financial institutions	27,036.1	23,152.3	50,188.4	100

* To 1,625 companies listed on the Tokyo Stock Exchange, March 1985.

Source: IBJ.

Mr Mamoru Sakai president of the Long-term Credit Bank (LTCB), second biggest of the three banks and Mr Susumu Okabe, managing director of the Industrial Bank of Japan (IBJ), the biggest

End in sight to the cosy era

Investment Trusts

YOKO SHIBATA

NET ASSETS held by Japan's investment trusts topped the Y20,000bn ($1,052bn) mark for the first time in the middle of January. It took 33 years to reach Y10,000bn, but only a further three years to double this figure.

The rapid expansion of investment trusts outpaced the rise of individual financial assets such as bank deposits and insurance, which rose 1.7 times in the same period. Financial experts point to a huge issuing of government bonds and a bullish Tokyo Stock Exchange, in addition to investors' growing preference for higher yields, as the main factor behind this expansion of the investment trusts.

The trigger for this explosive growth was the launch of medium-term government bond funds in 1980. Within a brief time-span these have developed into a major financial instrument totalling Y6,000bn at their peak in 1984 and accounting for 50 per cent of the total net asset value of investment trusts.

However, bond investment trusts have now had to give up their leading position to stock investment trusts, which have topped the Y10,000bn mark for the first time, up 29 per cent from a year earlier. The comeback of stock investment trusts illustrates the shift in investment by individuals away from risk-averse to high-risk and high-return monetary instruments.

Net assets of trust funds investing in public and corporate bonds came to Y9,672bn, of which medium-term government bond funds accounted for Y4,008.6bn, down 22 per cent from a year earlier. The fall was caused by the flow of funds mainly to a new bank instrument with similar features. Money Market Certificates (MMCs) which were launched in March last year.

From a peak in April 1984, net assets of the medium-term government bond funds fell as much as Y1,950bn, and this has become a cause of concern to the securities houses.

"If a similar flight of funds amounting to almost Y2,000bn happened at the banks, it would cause a run," a senior official of a major commercial bank states.

The slump in medium-term government bond funds, a savings instrument designed for individual investors, resulted from the removal by corporate investors of their funds to MMCs. Holdings by corporate investors have declined from a peak figure of 55 per cent of medium-term government bond funds' total net assets to 22 per cent at the end of last year. Total net MMC assets expanded to Y5,800bn, surpassing medium-term government bond funds in less than 10 months.

Last December, four major brokerage houses formed a working party to promote sales of their financial instrument and proposed a revised sales plan for medium-term government bond funds for the finance ministry's approval in early January. This action reflects the degree of the concern felt by the securities industry.

"Medium-term government bond funds were a powerful financial instrument in the transition period while interest rate deregulation was taking place. As fully-fledged financial deregulation occurs it has become an out-of-date commodity," the same bank official observes.

Larger share

The medium-term government bond fund is still an interest-rate-regulated financial instrument, with its coupon rate set lower than one-year deposit at 5.475 per cent (the prospective dividend rate). A larger share of short-term money instruments such as call loans are now urgently needed in portfolios to reduce the proportion of medium-term government bond funds.

In an attempt to help better performance of investment trusts the Ministry of Finance will allow the industry to invest in certificates of deposit from this April. But investment in CDs is limited to 10 per cent of net worth of the funds as a concession to the banks' strong opposition to the security industry's entry into the money market.

The present year will see reforms to the investment trust industry as it adjusts to the changes and challenges brought about by the deregulation and internationalization of financial markets.

Firstly, investment trust companies have to improve fund management track records to match the increased importance placed by investors on high returns on their investments.

The recovery of equity investment trusts last year was largely due to the popularity of spot type trust funds. More than 100 such funds, worth Y2,500bn, were established last year, but they performed poorly, unable to top the rise of the stock market. Underperformance reflected lack-lustre performance by high-technology stocks, in particular electronics in which investment was heavy. For example, the return of 92 Japanese open end trust funds last year was only 2.3 per cent above the level their clients had initially invested. Only six funds out of 92 beat the rise in the Nikkei average index which is a broad measure of the Japanese stocks market.

Recently, Japanese securities houses have begun stepping up their efforts to sell high return foreign trust funds investing in bonds and stocks overseas, with portfolios managed by overseas fund managers. Net assets of such trust funds reached Y557bn at the end of November, an increase of 66 per cent from a year earlier.

The boom caused a stir among the securities industry, implying that individual investors have become sensitive to rates of return and are beginning to spurn poorly performing domestic trust funds. There is criticism that such sales efforts of securities houses of foreign funds merely proves their own weakness in portfolio management.

Of late, Japanese brokers have enhanced their links with foreign investment management companies to develop foreign trust funds. At present, 39 such foreign trust funds are marketed in Japan, as rivals to domestic trust funds offered by investment trust companies linked to major securities houses.

The growth of foreign trust funds showed no sign of slowing, despite the finance ministry's instruction to the sellers of securities to warn potential buyers of the foreign exchange risks and the current steep appreciation of the yen against the dollar.

Japanese fund managers could have diversified portfolios into high-yield overseas equities. But their conventional policy of going for "low-risk and low-return" positions has limited overseas equity investment to 7 per cent of the total net value of trust fund assets at the end of December 1985. This 95 per cent is invested in the US. Last November, the scope of overseas markets, where investment by Japanese funds is permitted was extended from 11 markets in nine countries to 30 markets in 23 countries including Hong Kong, Singapore, Italy and Spain.

Japanese fund managers cite various legal constraints binding the industry for their poor performance in fund management. However, foreign fund managers ascribed their poor performance to abuse and conflicts of interest within investment trust companies. Japanese investment trust companies are run by 12 major securities houses, the market-makers who trade on their own account and issue new shares. As a result, the investment trusts are used often as dumping grounds of poorly performing stocks of parent-brokers.

Concern

The serious underperformance of Japanese investment trusts has often been a cause of concern to the financial authorities. The finance ministry has encouraged the establishment of "characteristic and attractive" trust funds such as Daiwa securities "domestic and foreign bond trust funds" which invested in Samurai yen bonds or Nomura Securities "Japan-US small capital stock trust fund."

For these funds the finance ministry allowed up to 50 per cent of the fund's net worth to be invested in foreign assets.

Japan's investment trust companies which have been operating in the cosy environment of the close-knit fraternity of the securities industry, now face powerful rivals trying to enter the market. The first possible intruder will be seven trust (custodian) banks which have been shifting their emphasis from loan trust funds to securities, to cope with chronic sluggishness of long-term fund demand from major corporations. From April, trust banks will be allowed to invest 33 per cent of their loan trust funds in securities, compared with 20 per cent at present.

This decontrol is in return for the concession granted to the trust banks, allowing non-trust banking institutions to manage investment portfolio discretionary accounts. This change is incorporated in the investment advisory law legislation before the current Diet (parliament) session.

Seizing this opportunity, trust banks launched a new money trust called "Hit" last December which could invest in high yield securities up to 100 per cent of the fund's net worth, very similar to the equity trust funds of securities industry.

Trust banks also known for their monopoly in the management of Japan's lucrative pension funds, have invested 80 per cent of the current Y10,000bn.

Changes bring renewed optimism despite the losses

Foreign banks

DAVID LASCELLES

JAPAN IS probably the most tantalising banking market in the world. Huge, relatively backward, increasingly receptive to outsiders—it is a temptation that virtually no major foreign bank can resist.

Yet historically, its blandishments have, siren-like, yielded little but frustration and, in many cases, losses. Last year, 28 of the 76 foreign banks operating in Tokyo (who between them accounted for barely 2 per cent of the Japanese banking market) ended up in the red. Several banks either left or shut down branches.

Despite this sorry record the mood in the foreign banking community is not all doom and gloom. Japan's financial liberalisation has triggered a fresh wave of optimism by offering new opportunities which bankers are now hurrying to seize. Whether this means success at last, or just another false dawn is something that should become apparent in the next year or two.

The changes that are sweeping through the Japanese financial scene give foreign banks a chance to haul themselves out of the quagmire of traditional banking where they have been struggling fruitlessly with the low-cost Japanese banks for a share of a shrinking loan market.

For more than a year now, tha talk in foreign bankers' expensive offices in downtown Tokyo has been of little else but the securities business, and how to get into it. This is not just the local manifestation of the worldwide "securitisation" trend in the banking industry. Securities are a booming area in Japan, and one where foreign banks, through a quirk in Japan's banking regulations can get a step ahead of their domestic rivals.

The trick is to find a way through or round the famous Article 65 of the securities law which separates banking from securities underwriting. Citicorp of the US led the way two years ago when its takeover of Vickers da Costa, the UK stockbroker with a Japanese securities licence, was approved. But that deal is still a bit of a sore point with the Ministry of Finance, and other banks have had to find more circuitous routes.

Deutsche Bank mapped a new path last year by obtaining a securities licence for an established Hong Kong subsidiary in which it has divested 50 per cent of its interest to friendly partners, Bayer and Siemens.

Hoare Govett, the UK stockbrokers which will eventually be majority-owned by Security Pacific, the California bank, also got a licence for a Japanase subsidiary in which a majority stake has been hived off to private investors. Other banks likely to try to follow the Deutsche Bank route include tha merchant banking subsidiaries of the big UK clearing banks (such as County Bank of NatWest and Barclays Merchant Bank).

More fortunate were banks which did not already have a banking presence in Tokyo and were able to apply directly for securities licences. After some political hassle, these were granted last year to two UK merchant banks, Schrodars and Kleinwort (one having already been granted to S. G. Warburg).

American Express has shut down its banking branch in the hopes of getting a securities licence for Shearson Lehman, its securities subsidiary.

WHO IS DOING WHAT

	Bank branch	Securities branch	TSE member	Trust bank		Bank branch	Securities branch	TSE member	Trust bank
Citicorp	•	•	•	•	Cazenove		•		
Chase Manhattan	•			•	Jardine Fleming		•	•	
Morgan Guaranty	•	—	—	•	Merrill Lynch		•	•	
Chemical Bank	•			•	Morgan Stanley		•	•	
Bankers Trust	•			•	Salomon Brothers		•		
Manufacturers Hanover	•			•	E. F. Hutton		•		
Security Pacific	•	•†			Paine Webber		•		
Barclays Bank	•			•	Goldman Sachs		•	•	
S. G. Warburg		•	•		Deutsche Bank	•	•†		
Schroders		•			UBS	•			•
Kleinwort Benson		•			Credit Suisse	•			•

† Through part-owned subsidiary
Note: Commercial banks only listed if they hold more than a banking licence

With these branches, banks are looking to underwrite securities issues (many of them are already members of the government bond syndicate) and deal in bonds and equities. Marketing Japanese securities to foreign investors, and non-Japanese securities on the local market will also be their stock in trade. But for the more ambitious banking and broking groups, the opening up of Tokyo creates a key link in their plans to girdle the globe, and complement their activities in London and New York.

Apart from dealing in foreign securities in Tokyo and running their bank's "book" during Tokyo trading hours, bankers will be trying to drum up mandates from Japanese corporations for issues on the Euromarkets.

Some are hoping to get into the Japanese mergers and acquisitions business. But deals are few and far between; the Japanese also resist paying fees for corporate finance advice.

Alongside securities trading, the banks have set their sights on investment management. At the moment they are only allowed to advise rather than run funds (though in practice they do both) but scope for this should be opened up with a new law on investment advisers later this year.

Nine foreign banks have also gone into the trust banking business (see separate article), and six banking/broking groups have just been admitted to the Tokyo Stock Exchange, becoming its first foreign members, a privilege, the value of which is symbolic as much as practical.

The six include S. G. Warburg which becomes the first member of the world's three leading stock exchanges, New York, London and Tokyo. Like other UK merchant banks in Japan, it has already merged in the local operations of the stockbroking firm it is buying in the big bang (in this case Rowe & Pitman) even though that deal cannot be completed at the London end until April under Stock Exchange rules.

Although securities have been grabbing all the attention, bankers are still pursuing their quest for business in other parts of the Japanese financial scene.

The liberalisation of the money and foreign exchange markets has produced a boom in trading which the foreign banks, with their long experience, have been able to exploit. Business in swaps and currency options is growing, and the planned introduction of an offshore banking market should stimulate dealing in Euro-currencies, though quite how big it will be is a matter of much speculation.

Just as intriguing is whether a foreign bank will take a big plunge into the domestic market by buying a Japanese bank. Although Citibank has denied widespread reports that it was planning to buy an ailing regional bank, one foreign banker says: "I bet the 20 largest foreign banks here are all looking at it very seriously."

The attraction is to gain access to retail deposits and get a much firmer foothold in the world's second largest banking market. The fear, though, is that a foreign bank may not be able to manage a Japanese institution successfully, or retain Japanese depositors.

The attitude of the Japanese authorities is another factor, though one senior banking official said he was "favourably neutral," and speculated that Japan might approve a foreign bank acquisition to emphasise its openness.

Many leading banks from the US, Australia and the UK have also raised their profile by seeking listings on the Tokyo Stock Exchange, a move which they hope will earn them as much publicity as new shareholders.

The liberalisation of the Japanese financial markets has certainly strengthened the somewhat tenuous justifications foreign banks previously gave for their unlucrative presence in Tokyo. Whether they will make more money now is a question few of them answer with an enthusiastic yes.

Many of them point to the spin-off in the form of Japanese business that comes to other parts of their banks. But some also wonder whether their bosses back at HQ have any idea of the massive commitment of money, time and effort it takes to develop a successful Japanese banking business.

For most banks, Japan is a place they have to be, almost regardless of the cost.

PROFILE: CITIBANK JAPAN

Striving for a retail network

WHILE MOST foreign banks in Japan would contemplate a move into retail banking as tantamount to catching the plague, Citibank Japan is actively looking to acquire a domestic retail branch network in Japan.

And while almost every Japanese bank longs to be allowed to buy or build up a securities subsidiary, Citibank, through its investment banking arm, Citicorp International, already owns Vickers da Costa, the London-based securities house with a well-established Tokyo branch and a newly-acquired seat on Tokyo Stock Exchange.

Further, within a few months, Citibank will be running a trust bank, along with eight other foreign banks which were recently granted the right to enter the trust business in Japan.

"Our competition is not really the other foreign banks," says Mr James Collins, head of Citibank's activities in Japan. "Our competition is really Japanese city banks, because we aim to supply a broad range of banking services. Foreign banks, with very few exceptions, tend to be specialised."

Can Citibank become Japanese? This is an intriguing question as none of the foreign banks in Tokyo can consider Japan as fertile ground for growing profits. Tha average net return on assets for tha 76 foreign banks last year was about 0.11 per cent. But Mr Collins, 46, a career Citibank man with wide experience in Asia, exudes enthusiasm for the project, and is relishing tha stiff challenge ahead.

Citibank Japan was founded in Yokohama in 1902. It now has 1,000 employees and six branches, making Citibank ona of the largest foreign banks in the country. Still it is a little more than a fleabite on the hide of the Japanesa banking system. But mention an expansion into retail banking and Mr Collins' eyes light up.

"At the moment, we are 90 per cent corporate banking. We want to get to retailing banking . . . just think of credit cards. In tha US, you can get $20 profit per card a year. In Japan, the penetration of credit cards is still very low," he says.

Challenging

Of retail banking in general, he says: "You do not need a big chunk of this market, it is so big. I think 2, 5 or 7 per cent would be great. We do not need 15 per cent. This really is the most challenging thing ahead of us."

At the end of last year, local newspapers were full of speculation that Citibank was in discussions to acquire Heiwa Sogo, a troubled mutual savings and loan group. Mr Collins scotches the story, although he supports the strategy, saying that the bank would like to buy a domestic retail bank and traditionally Citibank has gone for acquiring banks in some difficulties. For example, it has done so in France, Italy and Spain.

The idea of acquiring a branch network appeals, he says, "because you want to be able to deliver an immense variaty of services, either on the liability or the asset sides. So you can say to customers, we can provide all the services for you, from trust funds for your kids to consumer loans to foreign exchange."

But why would Mr Yamada in Yokohama want to bank with Citibank of New York? Mr Collins smiles: "If we want to be big here, we would probably want to do it under a Japanese name. You have to be Japanesa."

That means buying a Japanese bank. Mr Collins does not give a time frame for the expansion, but says he hopes it would not take as much as five or 10 years.

In the meantime: "One thing we are not selling here is loans — the spreads are terrible." Ha says that five years ago, 70 per cent of the bank's profits were from loans, now the proportion is 40 per cent. "If we had not begun to move on the fee side, we would be in horrible shape now."

According to an independent survey of all the foreign banks operating in Japan, Citibank's net return on assets was a paltry 0.13 per cent for the year ended last March. Further, the company has sustained some losses this year, believed to be worth a few million dollars, on the collapse of Sanko Steamship.

As a result, tha company is concentrating on fee-based income, such as fund management for high-income individuals, swaps, a new real estate advisory business and underwriting Euroyen issues.

A major strength for the group is its foreign exchange business, staffed with about 100 people, now among tha top Japanese banks in terms of volume. Citibank has not been shy about offering novelties such as currency options.

A dream

Citibank's plan to enlarge its retail network will dovetail, the bank believes, with liberalisation of interest rates on small deposits, which it expects to happen in the next two or three years.

"It is one of the dreams of every foreign banker to see the market rates set free and the marginal cost of funds go up," Mr Collins says. This would wipe out every spread in Japan unless the banks raise lending rates and if they (the Japanese banks) raise them, we can raise them and we are back in the loan business.

"If you build up a retail base on an inexpensive collection basis, you might have some edge. Even so, the competition will be fierce. It is already tough and it will get tougher."

He believes that the American sense of competition will liven up the Tokyo market. "Here, automated teller machines close at 6.00 pm. In New York, you are free to keep them open 24 hours a day. In the US, you are free to do anything you want to bring in a customer. The future will bring this kind of customer-oriented service."

"In fact, my thoughts are not really on regulation, but on competition. The obstacles to doing more business are really in the search for finding better products, cheaper products, for doing better marketing, having better cost controls. Even when the regulations go away, believe me, the competition will not go away," he says.

The only area of the business which Mr Collins is not immediately optimistic about is the new trust bank.

"We have been looking at trust banks for years and they do not make much money. Then, the opportunity came up to buy a licence and we could not let it get by. But quite honestly, we are trying to figure out how to make money in it. Its a very conservative business," he says.

None the less, Mr Collins remains upbeat. "Japan is a difficult market and it is a very large market. When all the dust settles, the rewards will be there," he says.

Carla Rapoport

Preparing for the international scene

Regional banks

YOKO SHIBATA

JAPAN'S REGIONAL banks, used to a comfortable niche serving local businesses, are facing a much tougher environment. They are now having to deal with narrowing spreads, declining corporate demand for bank loans, and competitive instruments offered by other institutions. Moreover, as their corporate customers in both trade and production expand overseas, the regional banks have similarly had to internationalise their own operations to provide better services abroad. At the same time in order to meet demand from local customers who increasingly demand higher yields on their investment, the regional banks have had to manage non-interest income effectively in overseas capital markets, by taking advantage of financial deregulation.

Migration

Expansion into international business is the answer for those banks suffering from migration to the cities from rural areas or a stagnating local economy. "As for international exposure, Japanese regional banks have been shy, despite their corporate strength. Assets average about US$7bn, and 51 out of the 64 regional banks are listed among the world's 500 largest banks," says Mr Takaaki Shinozaki of the Bank of Yokohama, the largest regional bank.

At present, approximately three subsidiaries, five branches and 30 representative offices are in operation abroad, but the Bank of Yokohama is dominant in this list with 12 representative offices, three branches, two subsidiaries and one investment bank overseas.

Japan's regional banks come under Japan's banking law, together with city and foreign banks. However, there is no legal separation between city and regional banks. There are two tiers of regional banks, for administrative purposes, the government treating larger banks based in Tokyo and Osaka as small city banks while smaller banks with their headquarters in major cities of each prefecture are treated as regional banks. By contrast, city banks have their head office in the major urban cities such as Tokyo and Osaka, with domestic branches located in large cities in Japan.

Regional banks account for 23 per cent of Japan's financial institutions, including city, trust and the long-term credit banks, but outperform other types of banks, with 28 per cent of net profits and 35 per cent of stockholders' equity. The ratio of stockholders' equity to assets is strikingly higher in regional banks than in other banks, too. For example, the Bank of Yokohama ranks the first in Japan's financial institutions in ratio of equity to total assets at 3.2 per cent last year.

Regional banks are allowed to accept the same type of deposits as city banks, but they have a major advantage in that they have ample sources of funds. Some 52 per cent of their deposits totalling Y91bn at the end of March 1985 came from individuals who tend to leave their money longer than corporate depositors. Deposits by corporate customers accounted for 35.2 per cent of the total at the end of March 1985.

Regional banks also localise their operations, with 64 per cent out of their total lending of Y68bn at March 1985, being based upon prefectures where each bank is headquartered. Regional banks have a weakness, however, in the relatively poor quality of their loans. As much as 67 per cent of their lending is made to local small corporations. A number of regional banks and mutual saving banks in Osaka had a loan exposure in the Sanko Steamship failure in August last year. Bank of Osaka wrote off Y6.2bn out of its outstanding loans of Y7.7bn to Sanko, Y5.9bn by sales of securities and Y1.6bn by dipping into internal reserves.

Regional banks also act as fiscal agents for 41 prefectures, 441 cities and 918 towns and villages, providing services for local governments, collection of taxes, disbursement of subsidies, and handling of pension funds etc. Regional banks supply 39.6 per cent of local government's financial needs and they underwrite a large proportion of private issued bonds by local public bodies.

In April 1983, the regional banks begun offering over-the-counter sales of government bonds and public bonds. In June 1984, dealing business was started at 44 regional banks with the number of regional banks handling such bonds expanding to 63 in June 1985. As a result, the dealing volume of the government bonds in the half year to September 1985 reached Y20,000bn, generating trading profits of Y20bn. To meet growing demand from local customers, many regional banks are shifting their securities sections to Tokyo for dealing in government bonds.

Funding

Regional banks have begun to feel the effect of interest rate deregulation as instruments such as large term deposits of yen, NCD (negotiable certificates of deposits), or foreign currency deposits have gained weight. This has increased the cost of their funding as they have to pay out higher rates for these deposits to attract funds. Increasing numbers of regional banks have also begun to resort to such loans made at spread over the short-term prime lending rate, a more profitable method of pricing. This practice is designed to counter the city banks efforts to extend loans to small corporations, traditional customers of regional banks.

During the half year to September 1985, 39 regional banks of of the 64 suffered negative spreads. However the 64 regional banks as a whole managed to lift combined half year pre-tax profits by 1.6 per cent and net profits by 1.8 per cent from a year earlier. Pre-tax profits before sales of securities, believed to reflect real banking profitability, declined by 2 per cent.

This marginal increase in pre-tax profits and net profits was attributed to returns on effective management of [illegible] interest funds in foreign bonds and foreign currency denominated deposits. As of the end of September 1985, the 64 banks net worth totalled Y4,478.7bn.

From last year, regional banks have stepped up their operation in foreign bonds and foreign currency denominated deposits for fund management.

Local public corporations have become increasingly aware of high yield on their investment, and are shifting their funds to foreign currency deposits. They have been followed by the regional banks which can earn a spread by profit taking operations in the impact loan market (foreign currency denominated loans without specified use). Regional banks also invest funds raised by foreign currency deposits in foreign banks, without converting the foreign currency funds into yen (so called out-out transition). At the end of September, 61 regional banks—all but three—were engaged in trading of foreign bonds.

The form of foreign bond investment varies a great deal for each bank. For example Musashino Bank has been concentrating on the US bonds, aiming partly to earn short-term capital gains, and partly to let the bank's name become known in the US, while, the Bank of Shizuoka has been investing chiefly in Eurodollar floating rate notes (FRN) issued by foreign financial institutions. Most of regional banks are hoping to expand their investment in foreign bonds but a shortage of bank staff experienced in investing in foreign bonds is hampering their plans.

Expanding

Regional banks have been expanding their international presence. Currently 60 out of 64 regional banks are authorised foreign banks, while 50 of these banks have corresponding relationship with overseas banks. Those banks headquartered in prosperous urban cities have aggressively sought international exposure. For example, the Bank of Yokohama's international assets maintained a 25-27 per cent growth annually in the past 10 years to account for 30 per cent of total assets last year. Hokuriku Bank which has many export-oriented kitchenware makers and textile manufacturers as a customer, or Bank of Shizuoka which has large exporters, Suzuki Motor, and Yamaha as customers have actively expanded their presence overseas.

From May last year, the guidelines on the medium and long-term funding ratio was abolished for Japanese city banks, but, regional banks are still saddled by the guidelines under which they have to fund 10 per cent in yen syndicated loans to non-resident and 15 per cent in foreign currency denominated syndicated loans to non-resident.

From 1983, 42 regional banks lead managed by the Bank of Yokohama have extended four Yen syndicated loans to the World Bank. However, of late, Japanese lending with rates based on a spread over the long-term prime lending rates have been spurned by borrowers who have shifted to Euro-yen loans.

Following the liberalisation of the Euroyen market, the Bank of Yokohama issued its first Euroyen loans to domestic customers. However, those regional banks without London outlets, have to pay 1/16 per cent premium spread when they have to raise money in the Tokyo dollar call market for lending to customers. Japanese regional banks are eagerly waiting for the establishment of Tokyo International Banking Facility (IBF), scheduled to open from October this year, which will enable regional banks without overseas exposure to book loans which will be generated in other financial centres.

The biggest game in town

Swaps

BARBARA CASASSUS

THE YEN connection has been a vital ingredient in forming a three-way axis between Tokyo, London and New York in the fast-growing, closely integrated swap arena.

An absence of data on this unregulated market makes it impossible to quantify the Japan component with any certainty. But many bankers believe it has expanded more rapidly than the market as a whole over the past couple of years, propelled partly by the country's huge capital surplus and the need for more portfolio diversity as firms become more polished in managing their assets and liabilities.

The yen element, dominated by Japanese banks and securities houses, takes care of a major portion of the Eurobond market, involving either yen paper swapped into dollars or dollar bonds swapped into yen. "It is the biggest game in town," says one Tokyo-based US swap specialist. Other bankers suggest Japan now accounts for a quarter of the international swap market in one way or another. However, the key factor in Tokyo's new prominence is probably financial regulation, when rules are lifted or products are devised to get around them.

Currency swaps took off in April 1984, when the real demand rule on forward foreign exchange dealing was abolished. This move, which enabled Japanese corporations to issue bonds with simultaneous currency swaps, was followed in December by foreigners being allowed to float Euroyen bonds.

The vast majority of these instruments launched since then, including all dual-currency bonds whose interest is paid in yen and whose capital is redeemed in dollars, have been issued by foreigners and have been swapped.

Because the yen still does not have full international status and is used for only a small part of Japan's trade, non-resident borrowers generally have no need for yen and so swap the debt into US dollars or whatever currency suits them best.

On the reverse side of the regulation coin have come yen loan/deposit package swaps, which were spawned by interest rate and foreign investment controls, and last year's flood of "sushi" or non-yen bonds issued by Japanese residents. The latter offered a tidy loophole in the rule limiting domestic institutional investors' non-yen holdings to 10 per cent of their total assets.

Because of investors' hunger for foreign currency denominated paper, issuers could secure tight conditions on the mainly dollar bonds, and swap them into yen at much lower cost than if they had tapped the yen market directly.

Strategy

The scramble by Japanese houses to obtain rankings in the underwriting league tables narrowed spreads on new issue swaps to levels that earned them the *Harakiri* label. This did not indicate total suicide in all cases, but it often meant opportunity losses of 1 per cent compared to market rates and even 2 per cent to 3 per cent when competition was at its fiercest.

The strategy worked. The Big Four Japanese securities companies, Nomura, Daiwa, Nikko and Yamaichi, picked up lead management mandates for more than 80 per cent of the Euroyen bonds issued last year.

Memories of battles to take prestigious Japanese names to the market are still fresh, particularly those fought over half a dozen government-guaranteed borrowers such as Japan Air Lines, the Tokyo Metropolitan government and Japan Development Bank, as well as some major corporations.

Bankers recall that as soon as Nippon Telegraph and Telephone, which is now privatised but still has the aura of a government agency, announced its intention to go to the capital market, it was immediately deluged by up to 40 offers.

Volatility in interest and currency exchange rates has put a damper on sushi *Harakiri* swaps for the moment, but bankers say they could come back if the bond market revives. While the 10 per cent rule remains in force and Japan-US interest rate differentials are at least 3 per cent, Japanese cash-rich institutional investors are not expected to lose their appetite for dollar-denominated instruments.

While the *Harakiri* swaps may be dormant, competition for standard interest rate and currency transactions is keeping spreads thin. Most bankers agree that although volume in plain vanilla deals can produce a respectable profit the accent now is on engineering high value-added packages covering a number of swaps and carrying an up front arrangement fee as well as a spread.

Instead of more swap blockbusters like sushi or Euroyen bonds, each new product introduced to the market is expected to feature extra refinements, especially in the direction of options. The trend began with dual-currency bonds and has continued with Bankers' Trust's Indexed Currency Option Notes (ICONS) and Nomura Securities' Heaven and Hell bonds.

These are targeted to Japanese life insurance companies and trust banks who have an affection for current income over yield to maturity.

Another area where Japan stands oot in swaps is the growing importance of asset deals. These are believed to be bigger here than anywhere else, with estimates of the share of purely asset-driven transactions ranging up to 50 per cent.

Such deals were given a further shove when the yen started to climb against the dollar last Septemher and dollar bonds needed a sweetner to attract investors. Although bankers disagree on whether the asset side will overtake liabilities one day, some predict they could do so for swaps involving Japanese counterparts in two to three years.

At around $10m, tha volume of each transaction is usually far smaller than the $50m to $100m involved in new issue husiness.

The race in the Tokyo swap market is underscored by a sizeable increase in specialist teams at foreign and Japanese institutions over the past 10 months. "Everyone is setting up shop here," commented one foreign banker. All the major domestic banks have set up swap groups and expect to be joined soon by middle-ranking city and larger regional banks.

The Long-Term Credit Bank of Japan and the Bank of Tokyo (BOT) have the reputation of being among the most aggressive in the market and of having the largest volume of swaps on their books. BOT claims that $3bn of its $5bn in swaps outstanding at the end of 1985 were added since it started running open positions last May.

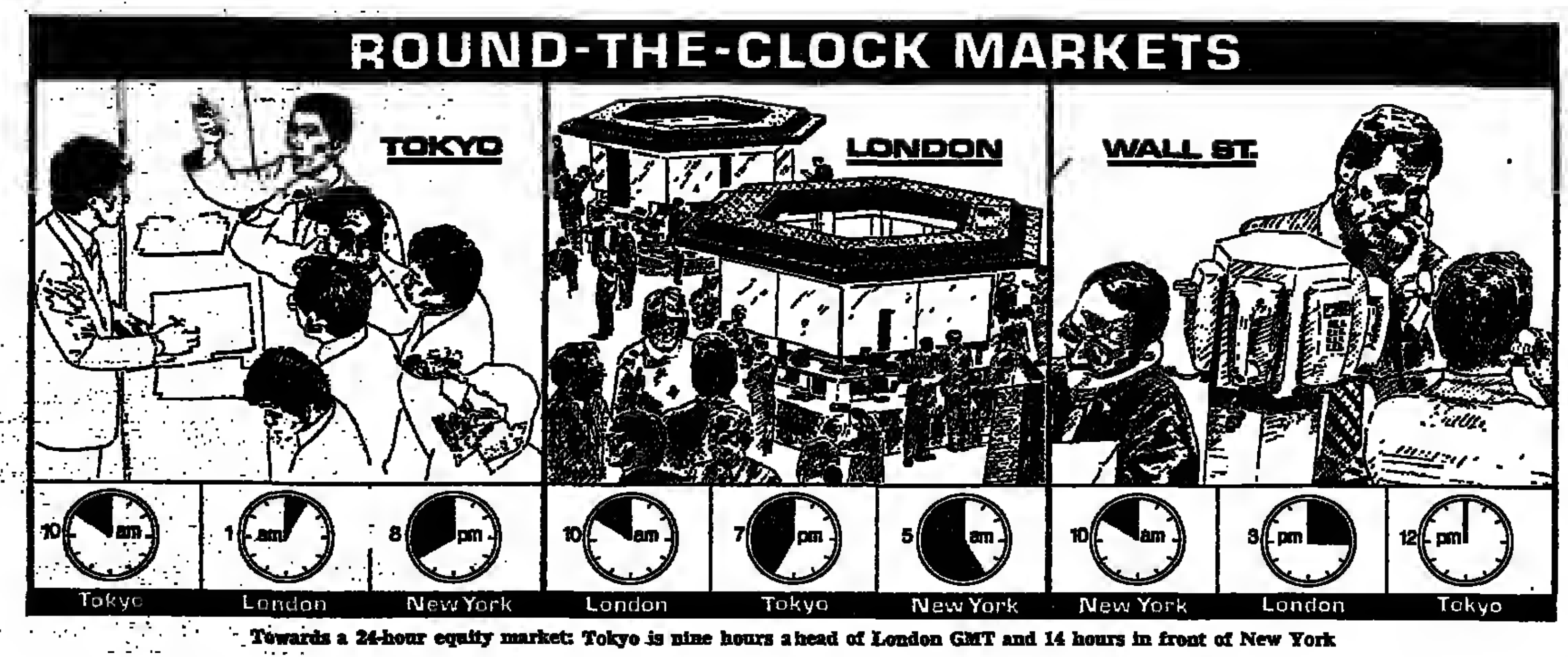
Major players

The securities houses are major players as arrangers and traders, as their role as principals is restricted to asset swaps by their lack of foreign exchange licences.

Among foreign institutions operating in Tokyo, the US commercial and investment banks, plus British merchant hanks and Paribas have the highest profile. Apart from Citicorp, Morgan Guaranty, Salomon Bros., Bankers' Trust and a few others, the market-makers have run their currency swap books here conservatively, letting market pricing and the likelihood of finding a counterparty quickly determine their position. Bnt that should change as more US houses plan to start taking open positions on currency as well as interest rates within the next few months.

Foreign institutions claim to be ahead of the Japanese in innovation and risk assessment. The Japanese "are taking a very good run at swaps," said one US banker, and their widening global networks should sharpen their creative skills.

Although domestic banks are having to compete on a more equal footing as economic considerations start to erode old client relationships, the foreigners are not hetting on how long they will stay out in front.



Towards a 24-hour equity market: Tokyo is nine hours ahead of London GMT and 14 hours in front of New York

All eyes on the rising sun

Tokyo as a business centre

DAVID LASCELLES

THE CHAIRMAN of Merrill Lynch Japan, Mr Tetsundo Iwakuni, was in a buoyant mood on February 1 when his company became the first foreign member to do business on the Tokyo Stock Exchange. This year, he said, would mark the start of the 24-hour global equity market as firms like his achieved membership of the world's three main exchanges, New York, London and Tokyo.

Even discounting the hype at what was, by any standards, a historic occasion, there is little doubt that the emergence of Tokyo as a — possibly *the* — key Far Eastern link in round-the-clock financial markets can no longer be ignored. From now on, any bank, securities house or stockbroker with the smallest international ambitions must join the scramble for a place in the land of the rising sun.

Rather like perfume companies, they need to boast the names of three capitals on their packaging.

The evidence of it is everywhere: the soaring cost of Tokyo office and living space, the desperate quest for anyone with financial skills who speaks Japanese (or English), tho pin-striped merchant bankers queueing in the seedy corridors of the Ministry of Finance with thick files full of applications for licences.

In the last four years, the staff of S. G. Warburg, which got into the TSE at the same time as Merrill, has risen from two to over 60 people.

Bankers' wallets are stuffed with visiting cards in both Japanese and English — vital emblems for any meeting in Tokyo.

Ironically, Tokyo's new eminence was not planned; it is a by-product of the government's decision to liberalise the Japanese financial sector largely for internal reasons: to make it more efficient. Because of that, there is not, as in London, any conscious policy to promote Tokyo as a financial centre—if anything the opposite.

The Japanese authorities have been slow if not downright obstructive in dealing with the hordes of foreigners who have descended on Tokyo. Countless tales are told in the foreign banking community (all totally unattributable for fear of offending the all-powerful MoF) of the hours — nay days, weeks, months — spent crawling through all the regulatory hoops.

At 58 per cent, Japan's corporate tax rate is not of an order to encourage the accumulation of vast profits. "We want to make money here, but not too much," confided one banker.

All the economic training in the world will not equip a foreigner to understand the inner workings of either the stock market or Japanese monetary policy. "The Japanese are much more concerned with their internal machinations and bureaucracy than with promoting an international financial centre," said the manager of the Tokyo branch of a major international bank.

But all the grumbling and the disarray may in retrospect seem the predictable strains of the world's fastest developing financial centre — one which combines tempting local business opportunities like the world's biggest savings market with e convenient place on the globe between New York and London.

That description can readily be challenged by the other contenders for supremacy in the Far East time zone, Hong Kong and Singapore. The Japanese have diplomatically tried to play down any suggestion of a threat.

While both those centres have big claims (Hong Kong with its huge financial markets, and Singapore with its Asian dollar market), it now seems increasingly likely that they will be eclipsed by Tokyo. Singapore's recent financial troubles and suffocating regulatory climete have reduced its attractions, while Hong Kong suffers an uncertain future.

Already, alien markets are springing up in Tokyo, like US treasury securities of which about $3bn are traded daily while New York is fast asleep. After London's big bang deregulation of the Stock Exchange later this year, UK Government stocks are also expected to be traded, as are Canadian and Australian.

Unfortunately, the time zones do not interlock perfectly. Depending on the time of year New York is 14 hours behind Tokyo, and London is nine hours behind Tokyo. So to mesh in with their counterparts in other centres, "we have to work jolly long hours," said a British banker.

In the "window" of overlap between Tokyo and London in the early evening, the international telephone lines get so congested that it is sometimes impossible to put a call through. But the British are lucky. Americans in Tokyo have to stay up till after midnight to catch the opening of the New York markets.

The foreign exchange markets have also boomed since controls on trading were lifted two years ago. According to a recent study by the Group of 30, s New York-based group of senior bankers and businessmen, Tokyo's daily dollar trading volume rose from $2bn in 1979 to $8bn in 1984, and its place in the world ranking went from seventh to fifth, meaning it had caught up with Hong Kong and Singapore.

Will Japan's move into the mainstream of world finance mean that its ways and hebits will become more closely moulded into those elsewhere? One Japanese observer comments that his country "accepts the need for an Anglo-Saxon financial system," and government officials say they support the idea of greater harmonisation of international financial regulation so that institutions can operate across borders without any special privileges or handicaps.

But s leading Japanese banker commeoted: "The market will become gradually more uniform. But each banking industry will build on its own history."

Waxing philosophical on the same theme, a senior official at the MoF said there had not really been any debate in Japan —as there bad in London—as to whether becoming a major financial centre was a good or a bad thing. "Ooe day we could reach that sort of debate," he said.

Until it does, though, printers of bi-lingual visiting cards should bave a field day.

Five ways to make an impression

Japanese for beginners

CARLA RAPOPORT

VERY FEW of the foreign bankers and brokers rushing into Tokyo know much, if any, Japanese. Learning Japanese is a time-consuming task which few expatriates can manage. This then is an attempt to provide just a few useful expressions which will make the newcomer or visitor to Tokyo a bit more at home.

First, before launching into Japanese, however, a few words about how the language is used. As a visitor or newcomer, you will be bombarded with excessive expressions of politeness, some of which will echo down corridors long after you've left an office.

Receptionists and telephone operators lard their conversation with honorifics that could overwhelm the British royal family. Smile kindly throughout and don't worry that you don't understand . . . these are just formalities.

Perhaps the only expression of this type which needs translating is *Irasshaimasay*, or Welcome. This word will be bellowed at you when you enter a sushi or yakitori bar, with the shouts likely to come from all the waiters and cooks in chorus. A colleague recently misinterpreted the shouts as exclamations of amazement over the appearance of large foreigners in the main restaurant. But in fact, foreigners and Japanese alike are greeted with hearty Irasshai's when they enter a Japanese restaurant or pub.

Now, as for speaking yourself: even just a few words will help endear you to your Japanese guests and make the subsequent business meetings a bit more relaxed. Stripped down to the very basics, five simple expressions will do the trick.

In the morning, the polite greeting between acquaintances is *Ohio* (like the state)—*go-zai* (rhymes with sigh)—*mass*. However, if you happen to be a man, you can win large smiles from your Japanese colleagues by greeting them in the morning with a hearty *Ussu*. This should be almost hissed. It is quite simple to say and remember, however, *do not use it in formal* meetings with a new client. Its an informal word for the Japanese friends in your office. If you are a woman, Japanese discriminates and there is little sense fighting a one-woman battle if you want to make a hit in Japan. Stick to the full phrase or Ohio.

At the end of the day, don't use *Sayonara*. Bid farewell to colleagues with "*Ja mata*," which is a kind of au revoir. *Dewa Mata* will also do.

The third handy expression is essential when a seaweed-wrapped bit of sea urchin is put in front of you. After you swallow the slippery thing, smile and say *O-ee-she!* (she pronounced like the word she) this means delicious and its utterance will make your host feel glad. If you want to be honest some time, add *Koo Nie* (rhymes with fie): to the end and you will have said, don't order another.

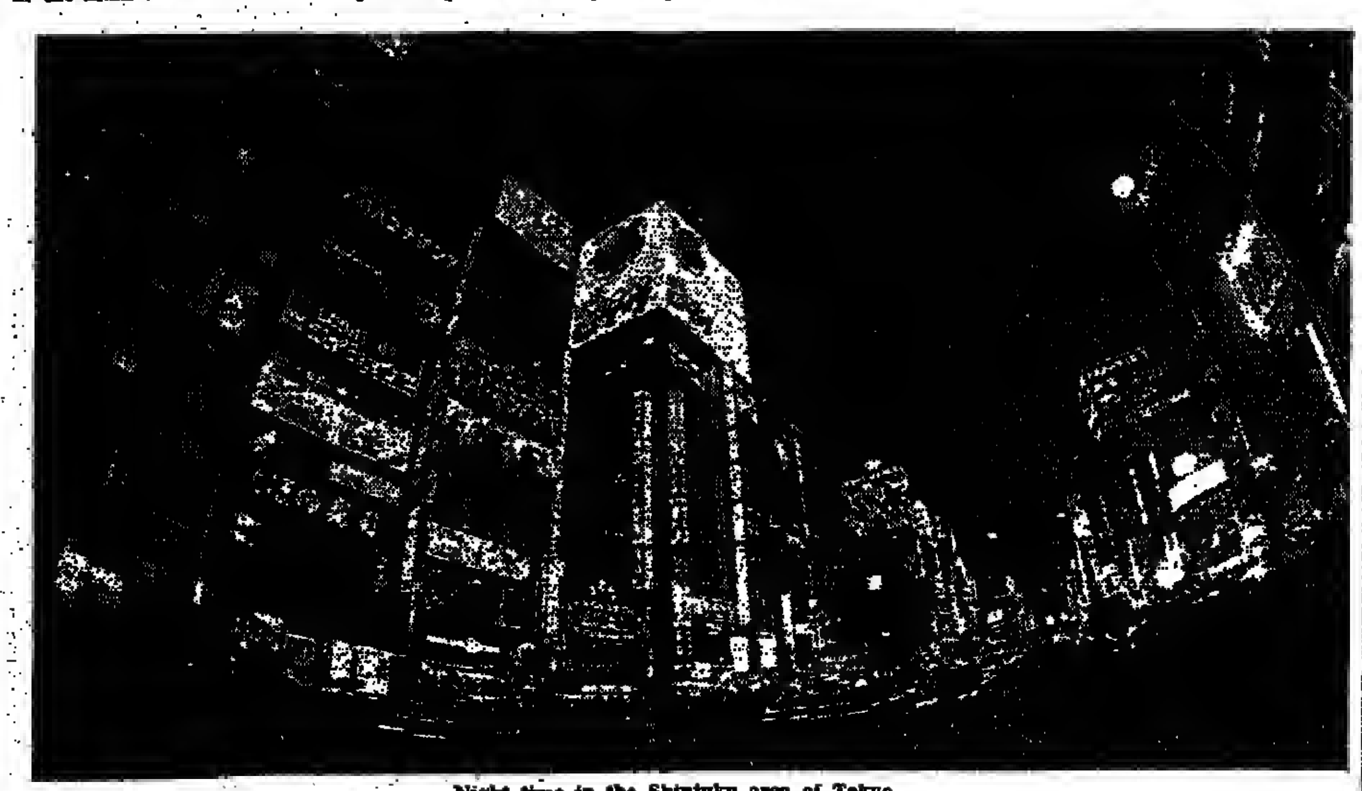
The last two workhorses are *Domo* and *Dozo*. The first is an all purpose word which means very much, so, or too. However, *domo origato* is thank you very much, so *domo*, in the right circumstances is thank you. *Domo domo* can mean I'm sorry for being late, or on the telephone, nice to hear from you and *domo sumimasen* means I'm really sorry.

Dozo is please. If someone asks your permission to do something, just say *dozo* and smile. It's a charmer.

After you utter any of these expressions, you will hear back from your friends, "You speak excellent Japanese!" You won't understand this expression, but when it is translated, say *Goma-suri*, which literally means, grinding the sesame.

This refers to the circular motion of a mortar in a pestle and indicates pointless flattery. If you master these five expressions, you'll get a lot of flattery, so *goma-suri*, with a smile, might be a handy one to also keep in mind.

Gambat-tay—or best of luck, try your best.



Night time in the Shinjuku area of Tokyo

A market thriving on restlessness

Tokyo SE

BY A SPECIAL CORRESPONDENT

TO A SECURITIES analyst weaned on conventional western stockmarkets the Japanese stockmarket can be bafflingly exotic. Although it is about three times larger than the UK market and nearly half as large as the US market, in character it retains much of the volatility and speculative excitement of its tiny South East Asian neighbours.

Because dividend payments are negligible (current yields are about 1 per cent) nobody invests in the stockmarket for income. However capital gains are usually tax free for individuals, so nimble private investors can benefit from short-term volatility in stock prices.

Broker recommendations are consequently geared to inducing continual movement in share prices, rotating their recommendations from sector to sector. For them the ideal client quickly takes profit and buys the next incentive backed issue.

The result is a perpetual restlessness in the market. Virtually any story, new product or concept no matter how improbable is knocked into shape as a buying recommendation and peddled to the public through the hundreds of local branches of the securities companies.

Where there is a kernel of truth or something triggers the public imagination the effect on stock prices can be astounding. The pharmaceutical sector is a particular favourite for this type of activity since the hope of miracle cures can overcome any short-term qualms about existing business. In the bio-technology mania in 1984 Yamanouchi soared to over 140 times earnings and Mochida went even higher.

For the most part this stock pushing lacks focus but when organised and sustained over a long period of time it can have an awesome effect. This was clearly seen in the case of the great bull market in bank shares which began in January 1984 and came to a triumphant climax in July last year.

For many years the share prices of banks had been kept rock steady. Trading in bank shares was so thin that for most investors bank stocks were a no go area of the stockmarket. Moreover fundamentally they had little to recommend them since loan demand was weak and competition was likely to intensify in the next few years as financial markets doregulate.

It was this vulnerability which led the Bank of Japan to remark that the major city banks should ensure that they were adequately capitalised in preparation for the more bracing environment to come. In other words they had to raise money in the stockmarket.

The brokers went to work despite the superficially unappealing circumstances. The shares rose explosively in January 1984 and within three months the prices of all the leading banks had doubled. "Deregulation" was propagated as a major positive theme in the stockmarket despite the fact that most city banks would initially suffer from deregulation and their profits would be flat or down over the next few years.

That did not stop the brokers and over the next 12 months the razzmatazz was so great that even the foreign brokerage houses were drawn into the excitement.

Arcane and irrelevant discussions took place in mid-1985 as to which of the banks was more attractive on fundamental grounds, when the plain truth was that the banks had already been pushed to dizzying price earnings multiples which were between five and 10 times more expensive than banks in the West. At the peak in July last year Sumitomo Bank had quadrupled and stood on 60 times earnings.

Two days later the bank raised over $150m from the capital markets, and followed it up with a further issue in October. Mitsubishi Bank, Fuji Bank and others also took advantage of their elevated share prices.

Since then the shares have drifted down, brokers no longer recommend them, the volume of trading has shrunk and the unfortunate subscribers to those issues have had no chance to sell at a profit.

Cynics would say that the euphoria about deregulation had served its purpose in enabling the banks to strengthen themselves at the expense of investors. The only hope for those who bought the shares just before the music stopped is if the banks wish to raise some money in which case the brokers will have to promote the issues once more.

None of this will surprise seasooed observers of the Japanese market who have watched similar operations take place numerous times in the past. Powerful securities companies with strong underwriting loyaltios and high pressure sales forces have been ehle to fan tho flames of speculation no matter bew improbahla tho story.

Thoir task was made easy because securities analysis is still rudimentary among domestic institutions let alone privato investors. Private individuals, who provide e major portion of the turnover, regard tho equity market as more of a place for fun money than as a serious havon for funds.

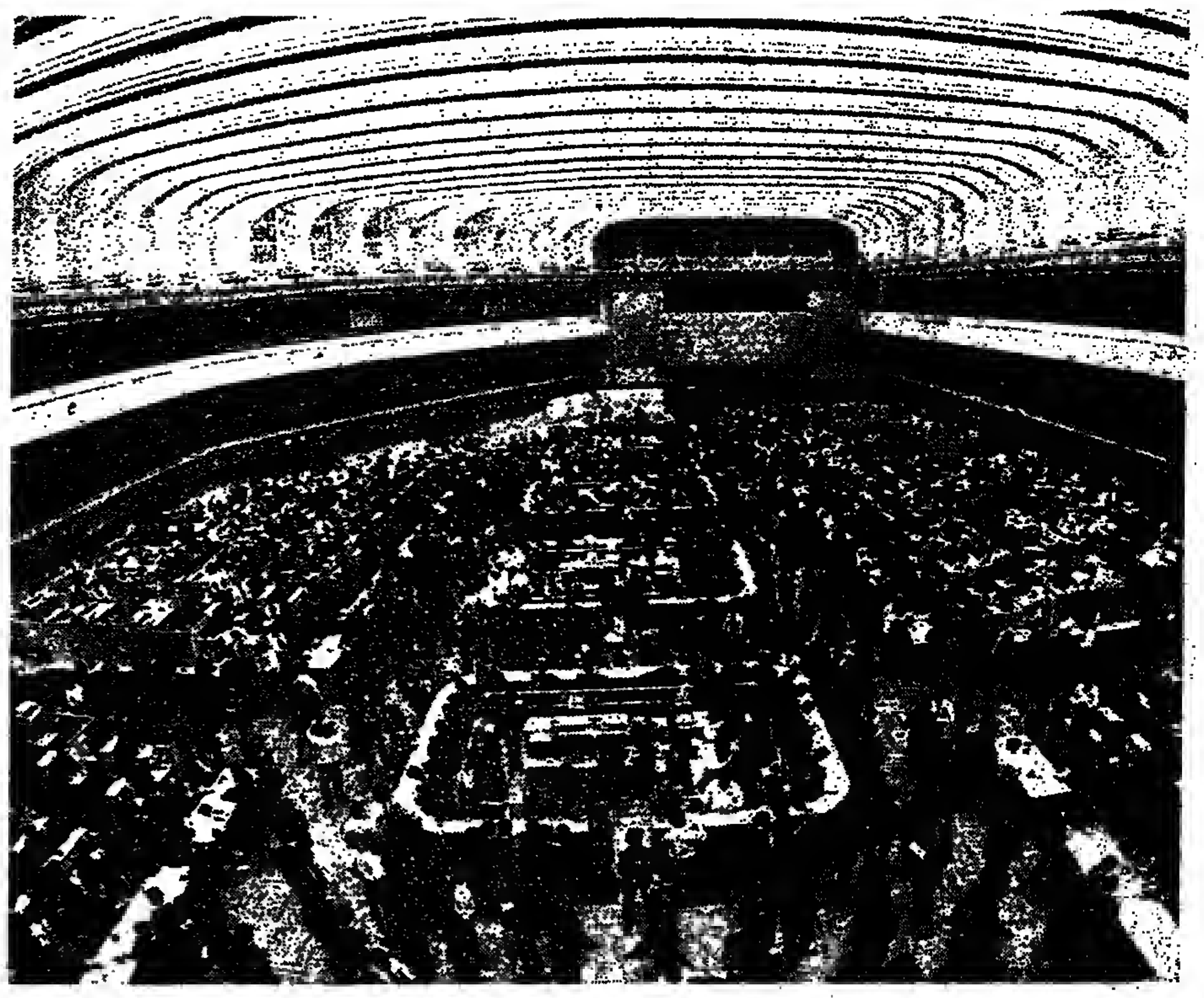
"Rational" western investors may laugh at these tulip manias which sweep through the Japanese investing public periodically, but they have played e major role in huilding up Japanese industry into the formidable force it is today.

The mania for semiconductors, for example, enabled Japanese integrated circuits companies to raise huge amounts of capital much more cheaply than their American compotitors and *ex post* become tho world beators the market dreamt about. The same might yot happen for bio-technology and even the banks.

The growing influence of foreign institutions, the increasing size and professionalism of domestic institutions and the general evailability of fully consolidated company accounting should therefore be greeted with mixed feelings. If fewer investors responded with enthusiasm when the call goes out to rally round and support e strategic industry, Japan will have lost a valuable competitive advantage.

It will be many years before the new generation of hard-working analysts cutting back the jungle with their cool appraisal of the facts can hope to snuff out the dreams peddled hy the local branch salesmen.

But is it merely a coincidence that the few Japanese companies which already fulfil US reporting requirements and are analysed and traded in New York stand on earth-bound price earnings ratios significantly below the Japanesa market average?



The trading floor of the Tokyo Stock Exchange

Making the equities pie bigger

Securities firms: The Big Four

CARLA RAPOPORT

THESE ARE boom times for Japanese securities companies. The huge flows of funds out of Japan into higher-interest investment overseas and excessive liquidity at home has helped to create an unprecedented bonanza for securities houses, particularly the market leaders known as the Big Four.

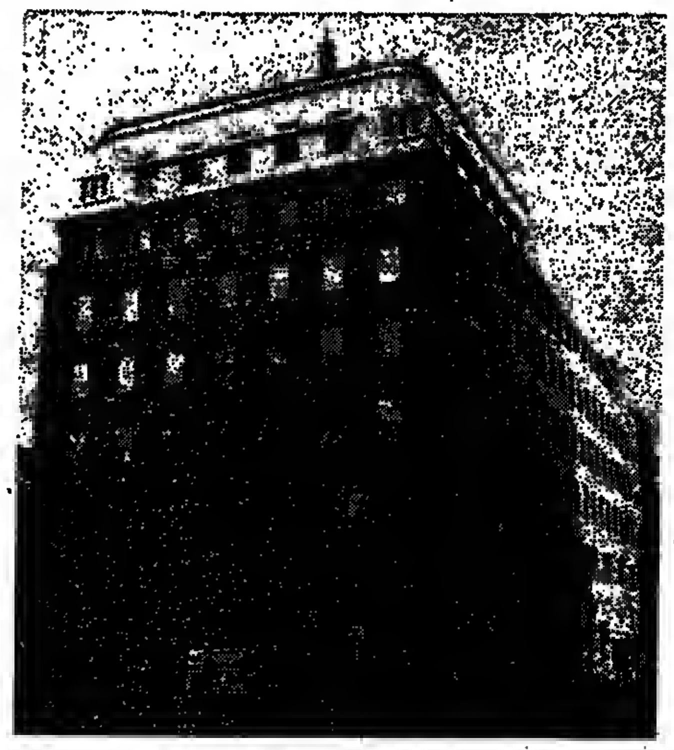
These four, Nomura, Daiwa, Nikko and Yamaichi, who account for nearly one out of every two shares traded on the Tokyo Stock Exchange, have been dealing with an almost embarrassment of riches over the past year. Domestic bonds traded on the over-the-counter (OTC) bond market rose more than twofold to Y1,274,000bn (about $6,300bn), in the year to September, sales of foreign bonds by securities houses leapt by a factor of 2.2 to $42bn in the calendar year.

At the same time, the Tokyo SE index has been reaching new highs and scoring volume records thanks mainly to the excessive amounts of cash on hand rather than on any bright economic incentives.

Not surprisingly, profits for the sector have been strong. The Big Four registered gains in pre-tax profits of more than 50 per cent each, with Nomura leading the pack by jumping 56 per cent to Y210bn on revenue of Y516bn. In line with the national obsession with obtaining the status of Number One, Nomura lost no time in announcing it is now the most profitable financial institution in Japan.

Despite all this excitement, however, there is no sense of apparent satisfaction among the Big Four. Those below Nomura want to overtake Nomura as number one in the home market. And all of the big four aim to be global financial institutions, complete with banking arms in overseas financial capitals, seats on the major stock exchanges, world-wide investment management services and just about everything else to do with money except printing it.

"To be an all-round financial corporation is indispensable for survival," says Mr Katsuhisa Yamada, managing director at Yamaichi Securities. Yamaichi, for example, has already branched out into gold trading, venture capital, and even credit cards through a joint venture with a large domestic credit card company.



A view of part of Nomura's headquarters in Tokyo.

Abroad, it has a banking licence in seven out of 11 of its overseas branches; in New York, along with the others, Yamaichi is seeking a licence to deal in US treasury bonds. But they are all optimistic about receiving banking licences this year.

"If Yamaichi cannot satisfy the needs of its customers, it will lose its status as a first class financial institution," says Mr Yamada.

"Our main thrust is to provide an international, global service to our clients," says Mr Jiro Yamano, senior managing director at Daiwa.

Already, Mr Yamana points out, Daiwa operates its own 24-hour stock market for clients worldwide who would like to buy Japanese stocks. It maintains a staff of senior traders in Tokyo throughout the night, all of whom are authorised to buy and sell stocks on behalf of major clients, depending on the size of the business.

At the same time, a bit of internationalism is now creeping on to the Big Four's home turf. On February 1 of this year, six foreign firms were able to begin trading on the Tokyo SE after years of negotiations with the Ministry of Finance.

The six are Vickers da Costa and S. J. Warburg, based in London, Merrill Lynch, Goldman Sachs and Morgan Stanley of the US and Jardine Fleming of Hong Kong. Further, the number of foreign shares listed on the Tokyo market rose from 11 to more than 20 last year and is expected to double again this year.

Even so, the Big Four say they welcome the new competition. Mr Yasuo Kanzaki, now a senior managing director of Nikko Securities, recounts the following story. In the early 1970s, Mr Kanzaki travelled to Edinburgh for the first time, in order to push the notion of Japanese stocks. Fund managers were so impressed, he recounts, they immediately increased their orders for Japanese shares. The orders, however, went primarily to Vickers da Costa.

"Some went to us," says Mr Kanzaki, "but the important thing was that the pie was opened." The same thing, he says, is now happening in reverse, with foreign firms now pitching foreign stocks and investments to the Japanese as well as Japanese stocks to western investors. "It's now a period of making the pie bigger," says Mr Kanzaki.

It is hard to imagine Japan's appetite for stocks and bonds swelling any further. But Mr Kanzaki points out that 54 per cent of Japan's total financial assets of $1,600bn are held in bank deposits and only 10 per cent are in the form of securities.

"The individual will come to realise that leaving money with the banks is not such a good idea," says Mr Kanzaki. "The banks will be pressed, probably e lot," be says.

As for pressures on their own business, the Big Four accept that en end to fixed commissions may have to be accepted over time. "But even today, there is little difference between the Japanese fixed commission and the US negotiated commission, even for the small retail client," maintains Mr Yoshihisa Tabuchi, the new president of Nomura.

Indeed, Nomura is whittling down its emphasis on equity trading, with the income earned from equities slipping below 50 per cent for the first time in its history last year. Instead, it is beefing up its bond transactions and other investment services. Daiwa, for its part, is now preparing for tho opening of Daiwa Securities Trust, the first trust company to be set up in the US by e Japanese securities firm. It is expected to start operations this spring.

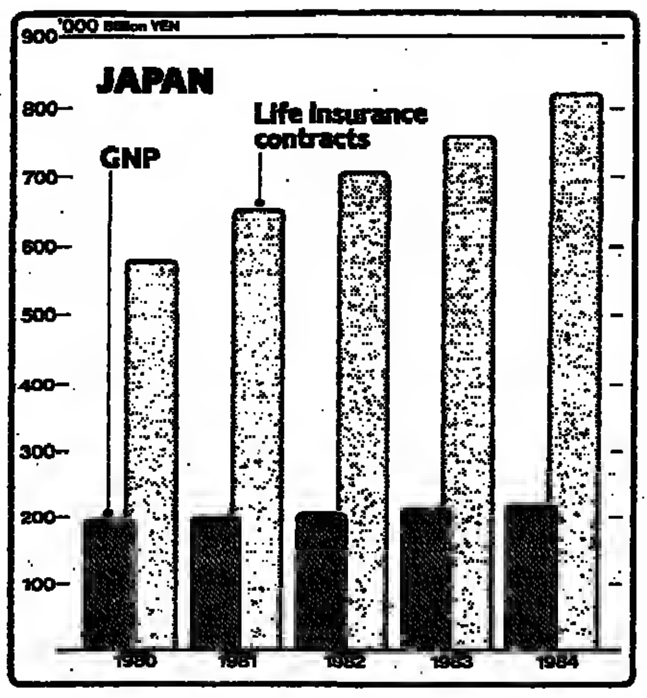
Despite its diversification, however, Nomura still holds about 15 per cent of total equity volume on the TSE. Daiwa is in second place with obout 12 per cent. Nikko is pegged at around 11 per cent, with Yamaichi et 9 per cent. Their shares of equity volume, while still quite important, are becoming less of an issue as financial deregulation allows the securities companies to move into new fields.

As of April last year, the securities companies were allowed to go into lending business using governmental local bonds as collateral. At the same time, they were allowed to buy and sell CDs, foreign CDs and commercial paper. From April this year, they will be allowed into the yen-based bankers' acceptance market, which opened to a lack-lustre response last year.

Summing up the attitode toward the changes which the Big Four are now facing, Mr Yamada of Yamaichi states: "The Tokyo Stock Exchange members are under pressure from the international trend towards increased involvement in their markets by hanks. Japanese securities houses are meeting this trend by co-operating in the settlement of occounts while continuing to compete in the area of financial know-how. We must develop better financial methods and more profitable financial commodities for investors.

"Anyway, the biggest point for securities companies is to get more banking and trust banking functions than banks get securities' functions," he says.

Diversification is the key to expansion



Life Insurance

YOKO SHIBATA

JAPAN'S LIFE insurance industry is undergoing radical structural changes. A rapidly ageing Japanese population and continuing financial deregulation are spurring innovation in insurance products and diversification of asset management.

Japan's life insurance market is the world's second largest, surpassed only by the US, with a total market size of Y807,870bn. It ranks first worldwide in policy value per capita at Y6.76m.

However, the life insurance business is nearing its maximum potential with more than 90 per cent of Japanese households participating in life insurance schemes last year. The Life Insurance Council, an advisory body to the finance minister, was set up last May to chart the life insurance industry's course through the problems brought about by changing society, the competitive environment created by financial deregulation and the rapid increase in an ageing population.

The advisory body has made two important proposals—a reduction in regulations covering the development of new insurance products and gradual deregulation of asset management to enable high returns to be achieved. The panel recommended types of products providing different forms of security, depending on individual needs and preferences.

As a result of the proposals made by the panel, a number of life insurance companies have introduced innovative plans. A survey by the Japan Institute of Life Insurance confirmed that the public increasingly view life insurance not only as a vehicle for providing cover for emergencies but also as an investment to cover living and medical expenses in old age.

New product

The leading form of life insurance is personal annuity and asset-forming annuity insurance, reflecting the increase in the number of aged people. A new product attracting great attention is Daiichi Mutual Life Insurance's "Lead 21" marketed last August which promises participants who live past a certain age pensions or other pension options in addition to regular bonuses.

Meiji Mutual Life Insurance late last September introduced a policy entitled Nursing, as a response to the problem posed by bedridden elderly patients. Under this invalids qualify for help with nursing charges while insurance payments were continuing, or a nursing pension after their completion. Another one is Kyoei Life Insurance's Kyoei Pension Home which provides all-inclusive care for the elderly, including accommotion in an old people's home.

To take advantage of the recent liberalisation of financial services, and growing public preference for high-interest investments, Mitsui Mutual Life Insurance and Nippon Life Insurance are offering plans paying regular interest at three-year intervals on old-age policies purchased in lump sums (Ichiji Barai Hoken). These are especially popular with the young.

Another notable trend has been an increase in the number of women purchasing policies, reflecting their changing role in society. Yasuda Mutual Life Insurance's Eve Sawayaka plan provides women with additional coverage for medical expenses not covered under their present policies if they are hospitalised for reasons such as difficult birth or breast cancer.

Other new forms of insurance include provisions giving married couples flexibility in payment plans, and health insurance to supplement public health insurance.

High risks

The advisory panel's recommendation last year placed emphasis on direct profit participation by policyholders through the encouragement of new types of insurance which allow customers to play the money market. Payment would vary according to annual profits on investment by insurance companies.

The risks are high but the possible returns are also tempting. Insurance companies have worked out a common formula to market this new type of insurance in the near future. The panel recommended that to achieve high yields on life insurance companies' asset management and hence bring high returns to policyholders, regulations on asset management, and diversification into other business should be relaxed.

The panel also wants to see the current 10 per cent ceiling on assets which can be invested in overseas securities lifted.

Total net assets of Japan's life insurance industry are expected to reach Y100,000bn ($526bn) by 1990, based on the following analysis: Japan's 23 life insurance companies' net assets have been increasing by 15 per cent annually on average to reach Y51,368bn at the end of 1985 (up to 17 per cent). If this rate of growth continues, total assets will double by 1990.

The investment activities of Japanese life insurance companies, as one of the largest institutional investors, have been closely watched by overseas markets. For example, a rumour in Tokyo last year that the 10 per cent ceiling was to be eased, caused a volatile movement in the US bond market within the same day.

The growth in the share held by securities in investment portfolios—up to Y18,000bn (or 35 per cent at the end of 1985), from only Y2,300bn (or 20 per cent in 1974—illustrates the change in asset management policy. Last year's investment in securities broke down as follows: government bonds, Y2,552bn (up 31 per cent), stocks Y7,534bn (up 11 per cent), foreign securities Y4,772bn (up 24 per cent). There was a shift to foreign bonds, particularly to US bonds within securities portfolios as high US interest rates, constantly 5 per cent above rates in Japan attracted investment for much of the year.

With life insurance approaching the 10 per cent ceiling on foreign securities, the industry rushed to buy foreign bonds issued by Japanese corporations, dubbed Sushi bonds which fall outside the authority's curb. The practice of using Sushi bonds was frowned upon by the euromarket as well as the finance ministry.

The life insurance industry voluntarily put a restriction on investment in such bonds to 5 per cent of their monthly net increase in assets last October so as to reduce capital outflow and arrest the yen's depreciation. This self-imposed ceiling was eased in the middle of January, as stability returned to the yen's exchange rate. This measure will be effective until the end of March, and will then be reviewed, industry sources say.

Subsidiaries ...

To get round the authority's curb on portfolio investment overseas a number of life insurance companies have set up overseas investment subsidiaries, mostly in Panama, or Luxembourg (for the tax advantage), with investment advisory outlets in New York. These investment outlets are able to stay outside the MoF's surveillance and invest freely abroad the proceeds from foreign bond investments. These life insurance companies' overseas investment subsidiaries attach great importance to their investment in US real estate. The wide investment opportunities provided by the huge size of the US real estate market and the high stable return promised for the long term are cited as the reason.

To make up for a shortage of lucrative investment opportunities, the life insurance industry has directed its investment portfolios to Tokkin specific money accounts which have been allowed from October 1984, with a ceiling of 3 per cent of their investment net assets. Life insurance companies establish equity portfolios under the administration of trust (custodian) banks and managed by investment advisory companies affiliated to major securities houses. However, since the middle of last year, many life insurance companies have set up investment advisory subsidiaries of their own to build up expertise in portfolio management.

Erratic

The net assets of Tokkin funds held by the life insurance companies topped Y500bn in September. The life insurance companies funds under Tokkin management account only for 0.4 per cent of the market capitalisation, but were still strong enough to cause erratic price movements.

Life insurance companies plan to raise Tokkin funds close to the 3 per cent ceiling of the assets in a few years' time.

The share of loan portfolios has been dwindling recently standing at Y24,212bn and accounting for 43 per cent of the balance of net assets at the end of 1985. Sluggish loan demand reflected corporations' fund raising activities in overseas capital markets or through public subscription.

However, overseas loans in the loan portfolio have been expanding sharply. Life insurance companies have one great advantage over banks in long-term lending of 15 to 20 years — this can be matched by life insurance companies' long-term funding.

Life insurance companies are at present diversifying into consumer loans, credit card companies, leasing, mortgage bonds and investment advisory companies. The move is partly designed to diversify their investment assets management and partly to boost their efforts to transform themselves into comprehensive financial service institutions so as to cope with the mature development stage now reached by the life insurance industry.

PROFILE: SHIJURO OGATA

BY JUREK MARTIN

Central bank's discreet observer

LAST MONTH, Shijuro Ogata found himself in Europe with time on his hands, an unaccustomed bonus. The regular monthly meeting of central bank governors in Basle had finished on time, the Group of Five finance ministers were not going to meet in London until the end of the week and though he could have flown back and forth to Tokyo and put in a quick 36 hours at the office he sensed it was not absolutely imperative.

After all, as deputy governor of the Bank of Japan for International Relations, his brief is principally external. A quiet dinner with some Bank of England colleagues might be useful, and there were a couple of plays on in London that had attracted his interest. So he went and enjoyed himself and if the producers of The Interpreters want a good Japanese review, they can always apply to the Bank of Japan.

For much of the last decade, Ogata has been BoJ's principal, discreet window on, and spokesman to, the non-Japanese world. Five or six years ago, when head of the foreign department he introduced what has now become a Tokyo institution—"Ogata's tea party"—in which, every other month, he dispenses to a small group of foreign correspondents the central bank's view on Japan and the world.

This is accompanied by rather nice pastries and in the heat of summer beer and crisps. Other ministries, most notably MoF, are now seeking to emulate his pioneering practice and hospitality.

Now 58, Ogata has been with the central bank since he graduated from, fittingly, Tokyo University's law school in 1950. He took a leave of absence to attend the Fletcher School of Law and Diplomacy at Tufts University in the US in 1954-56 and later served three years (1975-78) as the bank's representative in New York, partly overlapping with his wife's term as a Japanese representative at the UN (the first Japanese woman to be accorded ambassadorial status).

Mr Shijuro Ogata, deputy governor of the Bank of Japan for International Relations: famous for tea parties where the central bank's view is dispensed.

He is, in many respects the quintessentially correct central banker, adept at deflecting the uncomfortable question and skilled at dropping the right hints. The best example of this was a now famous "tea party" last September, in the wake of the G5 meeting in New York, when his lucid explanation of what the Bank of Japan was prepared to do in pursuit of a higher yen in concert with its counterparts elsewhere was dutifully and widely reported and contributed significantly to turning market sentiment.

Such influence has not always been the lot of the Bank of Japan, which over the years has been somewhat eclipsed by the power emanating from MoF. But it is capable of fighting its own rearguard actions — against the offshore market, for example — at least until its objections have been met. Ogata is very much the embodiment of that tradition — conservative, but not dyed-in-the-wool, prudent, but flexible to a degree.

What does stand him apart, however, is an irrepressible sense of humour and an uncentral bankerly taste for the absurdities of life. He gives the impression of genuinely enjoying the constant intrigue and negotiation that is now the central banker's lot.

He is also an acute observer of both Japanese and international politics. This is hardly surprising, since he comes from a well-connected political family and now forms, with Sadako, his wife, a university professor and much sought-after representative in international circles, one of Japan's most intellectually distinguished and gregarious couples.

For both, recreation and work are largely indivisible, but they combine them with distinctive wit and charm. Occasionally, Ogata will accompany his wife, an accomplished player, on the tennis courts.

Parameters set out for a Tokyo centre

Offshore banking

JUREK MARTIN

THE STORY is told that last year when the Tokyo metropolitan government decided to move from its old headquarters in tha city's business district, Mr Shunichi Suzuki, the governor, had an idea. He had heard of renewed interest in an international banking facility (IBF) being established in Tokyo. Why not, be is said to have suggested, put "it" in the old government building?

The City was, in doe course, appraised of the fact that offshore facilities, in this case on the New York model, do not actually require premises or trading floors. But even if they did, it is becoming increasingly clear that the Tokyo version, which could well be operational by the last quarter of this year, would not need a great deal of space.

Indeed, the debate now has passed beyond the stage of whether or not Tokyo should have an IBF to whether or not it will be of great initial consequence.

This does not minimise the progress that has been made towards setting up an IBF in the past 12 months. The first breakthrough occurred last March when the Ministry of Finance itself, after years of equivocation, firmly nailed its colours to the principle of the offshore market.

This was followed by several months of additional study by a special subcommittee of the Foreign Exchange Committee, under Mr Yusuke Kashiwagi, chairman of tha Bank of Tokyo and a former ministry mandarin, which last September took the process a stage further by publishing what it considered to be the desired parameters of the proposed new facility.

These were that:

● Participants in the IBF be limited to authorised foreign exchange banks (that is, Japanese banks and the Japanese branches of foreign banks); their offshore accounts would be completely separated from their domestic accounts and transactions would be exclusively "out-out," that is, exclusively offshore.

● The operations would be limited to loans and deposits, and not embrace securities trading, and thus be along the lines of New York, not London's integrated market.

● It would probably be necessary to abolish withholding tax on the interest in offshore accounts and that exemption from interest rate regulation, reserve requirements and deposit insurance would also be favourably entertained.

● The facility would have to be managed in such a way as to ensure that it was properly insulated from domestic markets, so as not to impair the effective conduct of domestic monetary policy.

Since then, the debate has continued mainly along technical lines, and not always to the liking of the IBF's advocates, such as Mr Kashiwagi and the influential director-general of MoF's international finance bureau, Mr Toyoo Gyohten. For example, it has become apparent that Mr Gyohten has encountered stiff resistance from MoF's own tax bureao, which has argued that an IBF should be a source of taxation revenue rather than a potential recourse for those wishing to avoid paying taxes.

Proponents of offshore markets maintain that they work best when subject to minimal regulation and taxation. New York, for example, the model for Tokyo, exempts its IBF from state and city taxes. But even if Japan does grant exemption from the withholding tax (if it does not, the facility might barely get off the ground), it still seems likely that offshore accounts would be subject to corporation tax and local municipal levies.

Even Mr Gyohten conceded in an interview here that the tax position remained unclear. He added that tax bills would have to be presented to parliament, that the current session's calendar was extremely crowded and that it was, therefore, at least possible that parliamentary action would have to wait on the autumn session. That could delay the opening of a Tokyo IBF. Sumitomo Bank, for one, does not think it will start until next year.

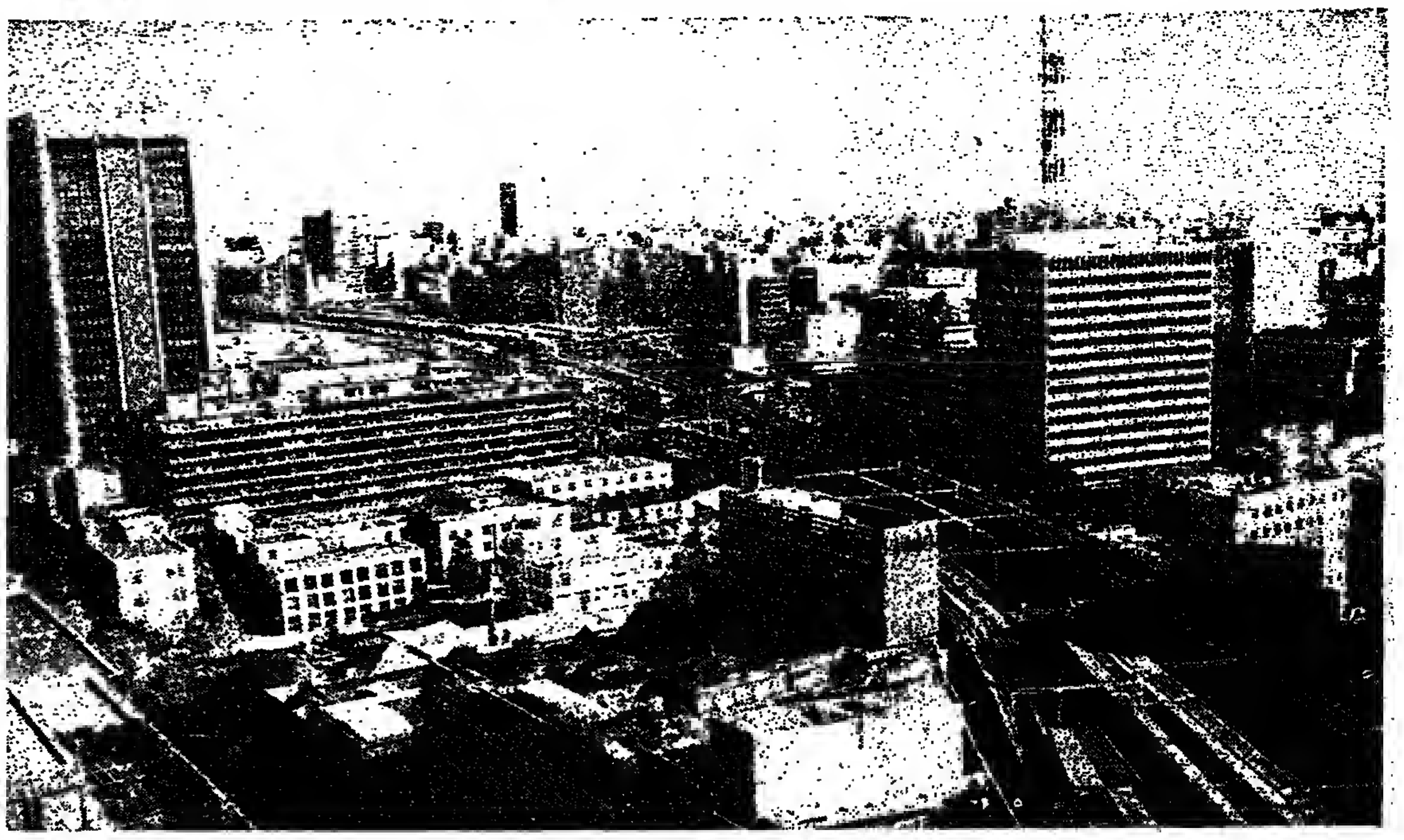
Other developments would allow the participation of short-term money brokers, but exclude transactions in certificates of deposit. Foreign currencies, and the yen, could be traded. The minimum deposits is likely to be set at Y100m.

The sum is that tha Tokyo IBF is likely to appeal to only some of the existing players *on the Japanese financial* markets. Of the Japanese "city" banks, the Bank of Tokyo, not surprisingly given Mr Kashiwagi's role, is the most bullish on its possibilities. According to Mr Roy Takata, its managing director, the Tokyo IBF "will not start in an entirely satisfactory *form*, but it *is* a market where we can take the leadership."

The main users are, in fact, expected to be the smaller, regional Japanese banks who need access to eurocurrencies but have no overseas offices themselves. Indeed, Mr Takata envisages the Bank of Tokyo, which specialises in foreign business, specifically servicing the regional banks, even to the point of bringing some of its present business back from London so as to make possible 24-hour trading in eurocurrencies. The Japanese branches of foreign banks may also use the IBF as a funding source, for swapping eurocurrencies into yen.

The Kashiwagi report emphasises that an IBF should make possible greater use of the yen as an international currency, a *goal that* both the US and the European Community have been urging on Japan for several years now. It is quite possible that a local IBF will shift the euroyen market to Tokyo and that proximity and familiarity will produce wider use.

However, the large Japanese financial institutions, which have been setting up investment and merchant banking arms overseas at a rapid pace, are unlikely to be deterred from their current external expansion policies by the existence *of a Tokyo IBF. They do not* see Tokyo as a threat to the offshore markets of London or New York (although some business could be drained from Asian offshore centres such as Singapore and Hong Kong). At best, it will complement the established facilities of London and New York.



A general view of the business area of Tokyo

Critical challenges lie ahead

CONTINUED FROM PAGE ONE

soon it will be Fort Apache," says a top executive with a large American bank in Tokyo.

Most officials want to delay Fort Apache as long as possible. In order to appreciate bow far Tokyo has already travelled, one need only look on to the ultra-modern floor of the Tokyo Stock Exchange, where the odd abacus is still being used in front of a computer terminal. Or consider the fact that *same*-day inter-bank fund transfer is still done in cash, more often than not on bicycles because of the beavy traffic congestion in Tokyo.

None the less, the process of deregulation is now gathering its own steam, not from the regulators bnt from the regulatees. Tha long-term credit hanks, for example, complain that they are free to offer short-term loans, but are not free to raise money at the same rate at which city banks can, because they *cannot solicit small* depositors.

City hanks, on the other band, already squeezed by paper thin spreads, and poor loan demand, are still barred from the lucrative securities husiness even though Deutsche Bank and Citibank bave been allowed to get into the Japanese equities market through the Tokyo branches of securities subsidiaries.

Further, the tougher tax treatment of investors in Japan is belping to send more of Japan's corporate fundraisers to Europe. According to the Bank for International Settlements, the outstanding balance of Euroyen deposits reached Y6,400bn at the end of June 1985, compared with Y2,500bn five years earlier. Last year, the *total amount of* Euroyen instruments raised by Japanese borrowers outstripped the amount of yen raised in Japan by foreign borrowers (samurai bonds).

"We're seeing Japanese borrowers going to London and domestic investors travelling to London to buy those papers," says Mr Jiro Yamana, senior managing director of Daiwa Securities. "It is like flying to Edinburgh via New York."

On the other hand, some recent innovations in the financial market in Tokyo have not been entirely felicitous. On October 19 last year, Tokyo's bond futures market opened and ran smack into the Bank of Japan's move to support interest rates and defend the yen against tha dollar.

Bond prices suffered their biggest ever drops and thoustands of neophyte bond futures investors lost money. A major contribution to the collapse was the beavy one-way buying before the BoJ move—in other words, *few* investors were willing to bet against the general mood that interest rates would go down, not up. The lack of speculators continues to bamper the market's development.

Another unwanted side-effect of the excess liquidity bas been the growing opportunity for frand.

Not surprisingly, the current Diet will be considering an investment management Bill this term, whicb is an almost exact parallel to the UK Financial Services Bill, aimed at investor protection. Moves to increase the national deposit insurance scheme are also afoot.

Looking ahead, neither the amount of money available for investing nor the methods available for investing it are likely to decrease. Bank of Japan figures show that the average bousehold's *net savings* in 1985 surpassed annual income for the first time in 1985, with net savings at Y4.56m, compared to income of Y4.4m.

From the average bousehold to the average corporation, the impetus to bring Tokyo in line with other major financial centres remains strong.